

Regional and cohesion policy in Hungary

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1. Regional patterns of transformation

A constant concomitant and determining factor of the development of modern economies is an ever fluctuating presence of differences in the economic development of different regions. The volume and spatial extent of obvious inequalities in the income relations and living conditions of the population, and in the state of the settlement structure and the environment are influenced by both long term development trends (e.g. the history of the settlement structure of the country) and short term cycles (e.g. effects of economic boom and recession, the changing of the economic paradigm).

In 20th century Hungarian regional development, apart from the influence of the inner regularities of the economy, economic policy and state regional development policy was influenced by international political decisions that upset the spatial structure of the country and delayed its integration into Europe.

Due to the economic policies of the last fifty years and to the settlement structure development initiated in the 1960's, the spatial structure of the country has changed, its settlement structure has become formally (considering the rate of urbanisation) more modern and differences between the major regions have lessened. In spite of these undoubtedly favourable changes, the spatial structure of the country still does not suit the conditions required for the rise of a modern market economy. The increasing social and economic innovations as well as the country's integration into the European regional division of labour are hindered by the lack of cohesion and infrastructural connections between the regions of the country and by the under-developed character of regional centres.

Hungary's present regional structure may be characterised by the following (*Enyedi, 1993a*):

1) A small country which is homogeneous from an ethnic, linguistic, and historic point of view. The population also shares the same history. Over 90 percent of the people speak Hungarian as their mother tongue. The Hungarian language does not have regional dialects that differ markedly from the accepted standard. Traditionally, the country has a uniform, centralised public administration system. The autonomy of territorial units is weak, and there is no tradition of federalism. Regionalism is weak within the country. Homogenisation was writ large especially in the socialist era; now the pendulum has started to swing back. A specific feature of the Hungarian local government system is the fact that local authorities are independent legal subjects. The local government system is very fragmented. Over 35 percent of 3,100 local authorities have less than 500 inhabitants. The average-size

municipality has 3,400 inhabitants which is below the European average (*Pálné, 1995*). The other characteristic of local government is the loss of importance of territorial government. The Hungarian counties can assume only those functions the local governments in the settlements are not obliged to perform. The size of Hungarian counties both by population and economic capacity is very restricted (*Figure 1*).

2) The most characteristic trait of the country's structure is its monocentric nature. The capital has a very large population share (about 20 percent of the total population). It plays a much bigger role in the intellectual and cultural life and politics than would be warranted by the size of its population. Budapest is the only big city in the country, and, in a way, the entire country is its periphery. Different governments attempted to decrease the overweight of Budapest (and its metropolitan area) in Hungary several times. Most of the attempts, however, failed. Only the industrialisation of the peripheral regions in 1950–1980 had consequences clearly visible in quantitative data. The share of Budapest from the industrial employees decreased from 50 percent in 1950 to a level of proportion with its population (*Enyedi-Barta, 1981; Enyedi, 1993b*). In other subsectors of the economy, in innovative activities the capital city kept its undesirable overweight. Despite all political declaration, in neither higher education nor business services, or in R&D took place a significant decentralisation in Hungary (*Figure 2*). The performance of Budapest is almost double the national average, while the GDP per capita in the underdeveloped regions is only a half of two thirds of that (*Figure 3*).

3) The most characteristic feature of the regional development status of the country is the difference in development between the western and the eastern parts of Hungary (*Table 1*). The Danube river is an important dividing line. In recent years, this contrast has become more pronounced. The Great Plain, covering about one half of the country's area, is a traditional agricultural region. Industrialisation carried out during the sixties and the seventies failed to modernise the Plain. It commands special attention due to its peculiar ecological and human settlement conditions that are so much different from that found elsewhere in Central Europe.

4) There are crisis stricken smaller areas within the larger regions. Agricultural areas poorly endowed by nature: they are mostly mountainous and hilly areas with agricultural activities where there is no other kind of economic activity due, mainly, to their isolation from the main traffic arteries. The decrease in the population in these areas has been going on for quite a long time, and there are many depopulated villages or hamlets where only the old stayed behind. The socialist system tried to sustain agricultural production with little success. The depopulated villages and hamlets have been taken over by marginal elements, mostly marginalised Gypsies.

Figure 1 Territorial-administrative units (counties) in Hungary

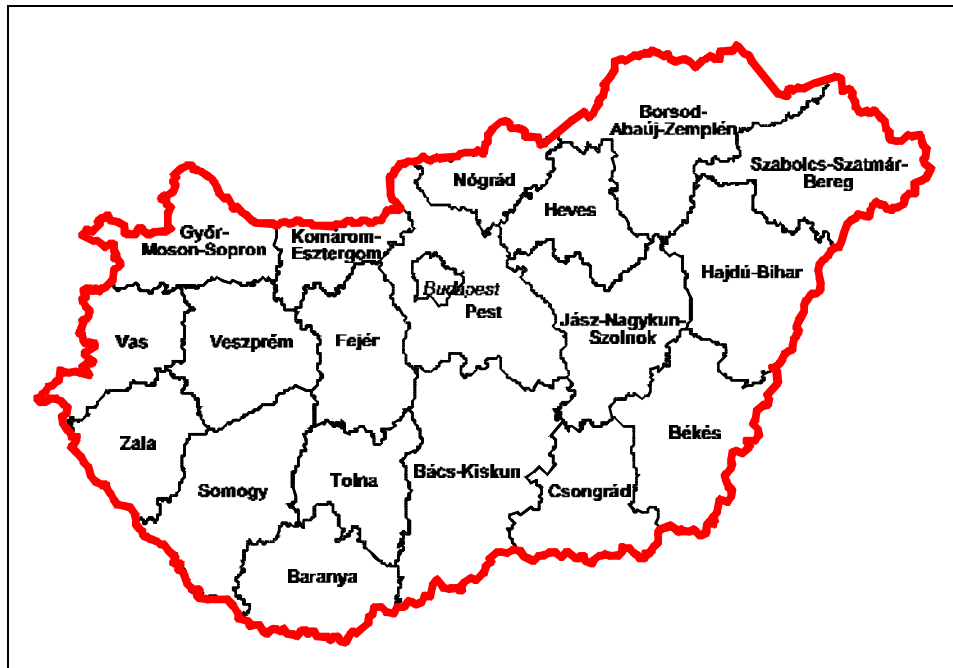
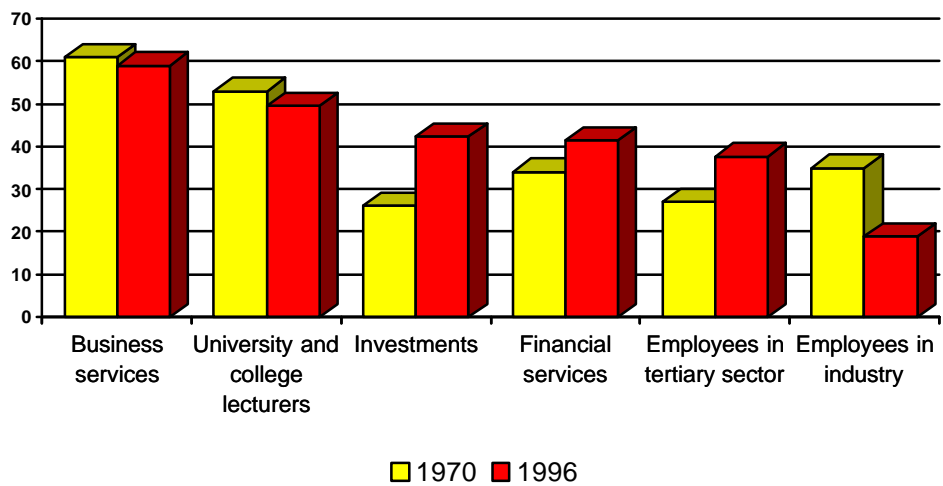
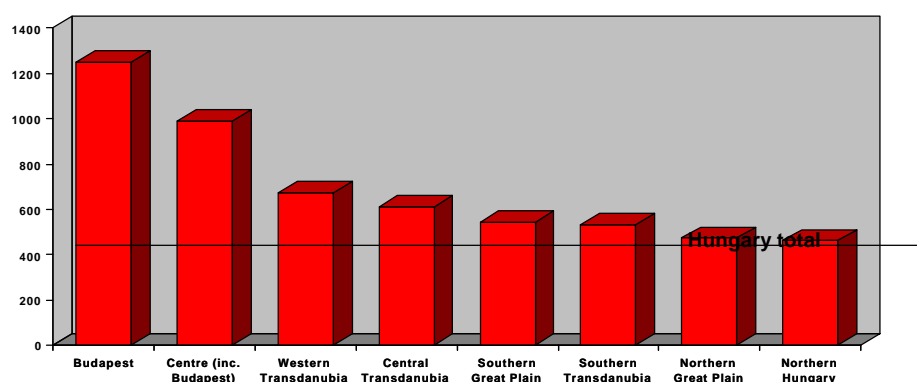


Figure 2: The weight of Budapest in various activities, 1970–1996



Source: Designed by the author on the basis of Regional Statistical Yearbooks. 1970, 1996. Bp., KSH. Various pages.

Figure 3: GDP per capita in regions, 1996**Table 1: Regional differences in some market economy factors in Hungary (Data refer to 1996, % of national average, Hungary total = 100)**

Counties	Unemployment rate	GDP per capita	Industrial export rate	FDI per capita	Employees in market
<i>Western Hungary (Transdanubia)</i>					
Baranya	111	77	55	76	97
Somogy	117	75	127	31	81
Tolna	126	90	47	37	80
Zala	85	93	79	37	85
Győr-Moson-Sopron	62	110	143	115	93
Vas	63	109	200	89	91
Veszprém	85	80	88	39	90
Fejér	83	102	149	130	74
Komárom-Esztergom	106	89	102	131	83
<i>Eastern Hungary (Great Plain & Northern Hungary)</i>					
Bács-Kiskun	95	76	106	24	84
Csongrád	83	93	68	49	96
Békés	126	76	101	65	84
Jász-Nagykun-Szolnok	133	76	102	75	86
Hajdú-Bihar	145	78	61	28	98
Szabolcs-Szatmár-Bereg	176	59	104	42	99
Borsod-Abaúj-Zemplén	170	70	80	95	96
Heves	119	73	68	70	91
Nógrád	151	57	89	87	74
<i>Central Hungary</i>					
Pest	64	74	75	114	74
Budapest	46	186	87	116	129

Source: Calculation of the author on the basis of Regional Statistical Yearbook, 1996. Various pages. Industrial export rate denotes the share of exports in industrial output. Market services are those which provide services to firms in the production sector or even to other firms in the service sector.

2. Regional policy trials in the early nineties

2.1 Rationale for the modification of Hungarian regional policy

The introduction of a market economy and the transformation of public administration have fundamentally altered the environment, aims, institutional and regulatory system of regional policy in Hungary. Under the new constitution, Parliament was given new powers, and the 1990 Government created a separate Ministry of Environment and Regional Policy. A Regional Development Fund was established and reorganised in 1991 for the financing of regional development.

The legislation regarding regional policy was passed in 1993, providing a new definition of the main tasks and means of regional policy. Despite these new legislative measures, the formulation of a proper regional policy in Hungary remained incomplete. The fundamental problem facing regional policy-makers in Hungary remained the lack of an overtly and explicitly stated overall concept or strategy. The Government Decrees and other measures introduced to date have dealt with tasks, functions or specific organisational elements rather than objectives. Initiatives were ad hoc, reactive and uncoordinated, and individual county or area programmes represented only partial, rather than coordinated, interests. The majority of reform programmes introduced as part of the political and economic transformation have had, and continue to have, an influence on regional processes in the Hungarian economy. The programmes themselves have also prompted new processes, both favourable and unfavourable.

Unfavourable changes have emerged from the transformation of the *budgetary* and *monetary systems*. Those regions exporting food and agricultural products, and those with extractive and raw material industries, have been most adversely affected by the reduction in the former large-scale state subsidies. The new income tax system and the abolition of agricultural credit preferences have resulted in falling incomes and widespread unemployment in rural areas. Even the new regulatory (normative) system of state subsidies for local governments has not been able to counteract the disadvantages of lagging regions. As in other European countries, regions of industrial crisis have emerged in Hungary, and lagging regions are in an increasingly desperate situation.

The transformation of *public administration* is not in harmony with regional policy aims. The establishment of autonomous local governments and their new financing system has created favourable conditions for local economic development, and particularly for settlement infrastructure. The establishment of the central Ministry of Environment and Regional Policy is evidence of the growth in importance of regional problems, but the socialist-liberal government did not create any committees to deal with these problems (unlike the old one). With the closure of the National Planning Office, medium-level administration has been weakened, and planning as a means of economic management has almost entirely disappeared from Hungarian economic policy. No coordinating institutions to harmonise sectoral decisions have been legally established, such as regional development councils. The co-ordination of crisis management and funding programmes created at the time of economic crisis has, therefore, not

been achieved at institutional level, and the conflicts between individual institutions have if anything grown more intense.

There was a large number of independent programmes, concepts, organisations, budgetary resources and foundations which are all attempting to guide regional economic development. Some development programmes and business plans were formulated for certain areas by the regional units of the Hungarian Economic Chamber and/or by the regional offices of the Foundation for Business Development. Local self-governments, ministries and regional development associations are being established without either a knowledge of other organisations strategies or any attempt to coordinate or link with them.

2.2 Evolution of the legal framework until 1996

More so than in other Central and East European countries, Hungary has pre-reform experience of operating a type of regional development policy, and a distinct regional development strategy can be identified from 1971 onwards. The government decrees of the time led to regional development planning and the inclusion of regional priorities in the redistribution of financial resources. This cannot, however, be construed as "regional policy". The central control of regional development was divided along sectoral lines, and sectoral objectives were superior to regional concerns in government policies.

Regional disparities decreased over the period 1966–8, principally through the centrally-planned relocation of large companies to the regions. However, the majority of these plants utilised outdated and polluting technology, and were among the first to be affected by the reforms initiated in the 1980s. The fall in regional disparities was, therefore, artificial and inefficient, and has not contributed to a long-term regional solution.

In 1985, a Parliamentary Resolution defined the long-term tasks of regional policy in Hungary, and a resolution for more rapid development of backward areas was passed by the Council of Ministers to achieve the targets specified. A more up-to-date approach to the problem was adopted, with specific aims of creating the preconditions for indigenous development through economic restructuring and modernisation, as well as integrating the principles of environmental protection and nature conservation. The resolution stated that "development resources should be concentrated first of all on Borsod-Abaúj-Zemplén and Szabolcs-Szatmár counties". The programme was not able to achieve any significant results as the financial resources were insufficient and the institutional system was inadequate. In particular, sectoral priorities continued to take precedence.

In 1991 a *Regional Development Fund* was established. The sources of the Fund, funding principles and the designation of assisted areas and sectors were heavily disputed by the Ministries, and the mechanism of distribution has been centralised. A small proportion of the resources for central regional development programmes (prepared for the development of seven counties and one small region) was decentralised. In some cases, the principles and priorities for the use of the decentralised state financial instruments (e.g. the Employment Fund) were actually against the development interests of a given region.

In 1991, a Government Decree (75/1991) on the provision of state grants for regional development and for the creation of new jobs was passed. The Decree gave the following interpretations for the overall aims of state grants given for regional development:

- 1) "the grant should promote the reinforcement of the economic base of backward areas, backward being defined from a socio-economic viewpoint. It should contribute to the quantitative and qualitative expansion of job opportunities, to the improvement of infrastructure and to the creation of preconditions of long-term indigenous economic development.
- 2) the effective creation of new jobs facilitating economic restructuring and the promotion of ventures should be stimulated in areas worst affected by unemployment, where the explicit need for the transformation of the old economic system is manifested most intensively."

The formulation of priorities and the interpretation of further tasks based on this Decree was reasonable, both from the point of view of the Hungarian situation, and that of European practice.

In assisted areas, employment regions worst affected by unemployment were defined using their actual unemployment rate index. Problems in designation included cases where settlements showed high levels of unemployment but were not necessarily depressed areas. The definition of backward settlements was made on the basis of 37 indices available at the time of investigation, using up-to-date statistical methods.

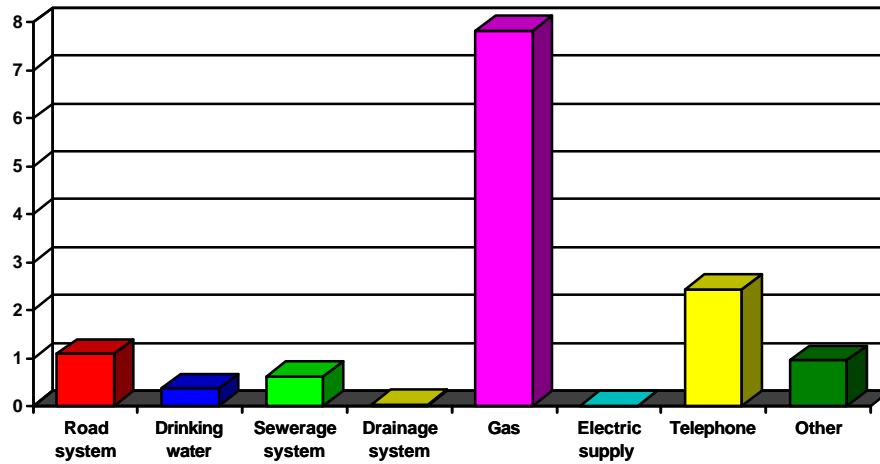
There was a delay in the drafting and approval of this Government Decree, which resulted in the submission of a relatively small number of tenders for projects suitable for an immediate start. As a result, slow progress was made in the utilisation of the annual amount of HUF 1.5 billion allocated for projects. Exploiting the situation, the Government allocated HUF 880 million from this fund for the support of the Metallurgy Company of Ózd (restarting, heating, wage costs). The remaining funds were insufficient for the completion of the original projects.

For the 242 tenders received for infrastructure development, HUF 2.505 billion were allocated in 1991, HUF 3.734 billion in 1992, HUF 3.167 billion in 1993 and HUF 3.394 billion in 1994. The largest sums were spent on road and gas pipe construction (*Figures 4-5*). For tenders creating 3,159 new jobs, HUF 397 million were allocated in 1991, HUF 277 million in 1992 and HUF 2 billion in 1993 from the state budget. The greater part of the subsidies reserved for future projects was, however, spent in advance due to the small number of tenders and the decision mechanisms of the Government's Inter-Departmental Committee. No steps have been made to remedy this situation.

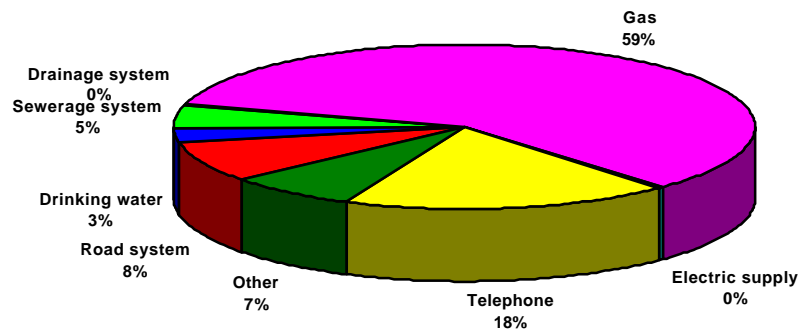
In 1992, the Regional Development Fund was reorganised. The Hungarian Parliament passed the Law on Separate State Funds (LXXXIII./1992), to comply with the stipulation that the management of central funds must be based on legal regulation. This Law was a new phenomenon in various ways, and it created a new situation in the central subsidy system for regional development. On the one hand, as the management of the Fund was regulated by law (despite some loopholes), the scope of subsidies was limited. On the other hand, the Parliament now had to determine the main principles of depressed areas, and which issues were of particular importance within that definition.

Figure 4: Sectoral structure of the infrastructural expenditures of the Regional Development Fund, 1991–1994

a) values in billion HUF



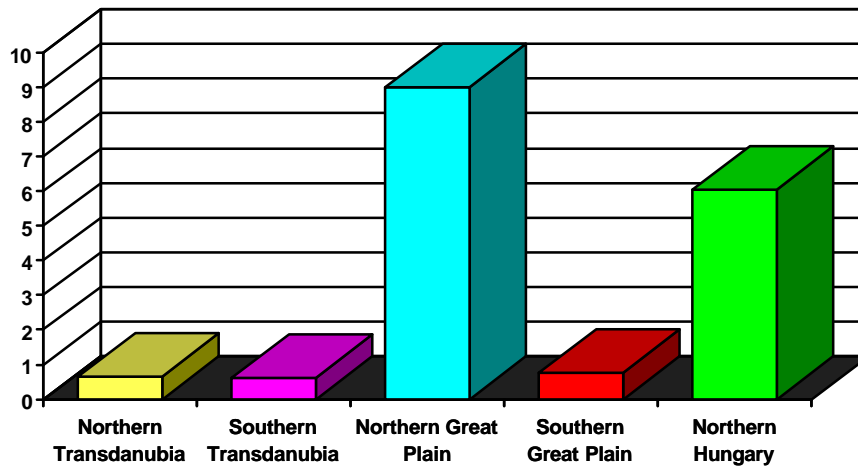
b) distribution in percentage



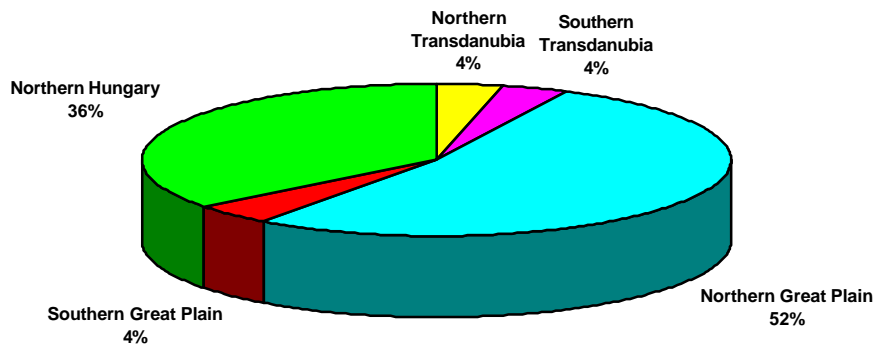
Source: Ministry of Environment and Regional Policy. Designed by the author.

Figure 5: Regional structure of the Regional Development Fund, 1991–1994

a) values in billion HUF



b) distribution in percentage



Source: Ministry of Environment and Regional Policy. Designed by the author.

The Law defined the Regional Development Fund to be a separate state fund having the following aims:

- to promote the economic reinforcement of backward areas, the creation of new jobs, the restructuring of places with poor arable land and to rationalise land use;
- to promote economic restructuring in those areas worst hit by unemployment and to introduce marketable economic activities;
- to facilitate the regional restructuring through inter-settlement infrastructure;
- to promote the drafting of regional economic development programmes and the development of business information services; and
- to support the realisation of regional development programmes prepared by the Government and Parliament.

According to the Law the fund was to be financed from ten different sources, the most important ones being state subsidies from the central budget, international aid and loans, and revenues from privatisation.

Decisions regarding Fund utilisation were to be made by the Minister of Environment and Regional Policy, with decisions on the allocation of subsidies being made in co-operation with the Ministry of the Interior. The Fund was to be managed by the State Institute of Development. The Law stipulated the establishment of an Inter-Ministerial Committee for the evaluation of subsidy projects. The Law also stipulated that the guidelines for support and the definition of areas hit by employment problems should be controlled by a Parliamentary Resolution for a three-year period.

The *Parliament* passed a new *Resolution on regional development* at the end of 1993. This Resolution (84./1993) is important as it is the first document that gives a definition of the main tasks and the means of regional policy. The Parliamentary Resolution defined the main tasks of Hungarian regional policy as follows:

- “laying down the foundations of internal and international co-ordination;
- regional crisis management, the economic reorganisation of traditionally backward areas and depressed regions;
- the start and acceleration of a selective infrastructure development project, concentrating on the most backward areas and regions, in order to improve the country’s overall disadvantaged position in infrastructure development;
- the reduction of disparities in the distribution and function of settlement infrastructure”.

The Resolution stipulated that these tasks should be co-ordinated for the implementation of plans in regional policy, but no instructions were given on an appropriate institutional system. Although there were 26 funds, with a total value of 230 billion HUF, under the control of ten ministries with some interest in regional development, there was no co-ordination and there are no common principles for their utilisation.

The Resolution also stated that "the establishment of those institutions ... that are in harmony with the institutional system of the European Community and the specialist conditions in Hungary should be promoted". The Parliament agreed that the Government should concentrate the resources of regional development measures on East Hungary in regions worst hit by crisis.

The Parliamentary Resolution (84./1993) stipulated the following supporting tasks for the Regional Development Fund:

- making new investments that create a high number of jobs at regional level,
- making investments for the maintenance of jobs for the facilitation of market and product change, and technological development,
- provision of assistance for complex programmes for regional economic development,
- support of development tasks of county development programmes that were approved in Government Decrees,
- provision of business services and the construction of incubator units and innovation business parks,
- construction of regional transport, telecommunication and energy systems,
- making investments for the protection of natural beauty, in protected agricultural areas,
- development of human infrastructure connected with the creation of new jobs, and
- development of village, and general, tourism.

The Government Decree (161./1993) defined four categories of assisted areas for regional development purposes as follows:

- 1) Backward settlements defined on the basis of socio-economic criteria;
- 2) settlements which are themselves not backward but are located in regions designated backward on the basis of socio-economic criteria;
- 3) settlements of employment zones with unemployment more than 1.5 times above the national average;
- 4) settlements in particular need of modernisation (i.e. those combining all the previous three elements).

The following indices were used as the criteria for "backwardness":

- the rate of long-term unemployment,
- the rate of active agricultural wage earners,
- the average value of arable lands,
- personal income tax per capita,
- the proportion of flats supplied with water from water pipes,
- the number of telephones per 1,000 inhabitants,

- the number of residents aged 60 years or more,
- the migration balance between 1980–1989 as a percentage of the 1980 population,
- the number of flats built between 1980–1989,
- the number of cars per 1,000 inhabitants.

The selection of criteria was restricted by data availability at settlement level, the exclusion of an infrastructure indicator, for example, was a result of this. The smaller number of indicators was also preferred for reasons of transparency, although clearly it reduces the accuracy of designation.

On the basis of these indices, the number of assisted settlements increased by 75 percent (from 964 in the early 1980s) to 1,325 settlements, distributed across the four categories (*Table 2*).

In the earlier support system there were no assisted settlements in Bács-Kiskun, Csongrád, Fejér, Győr-Moson-Sopron, Komárom-Esztergom and Jász-Nagykun-Szolnok counties, some of which were put into this category under the new system.

Table 2: Assisted settlements, by counties 1993–1995

Counties	Number of settlements	Population, 1992	%	Percentage of total population
Baranya	156	45,360	2.5	10.9
Bács-Kiskun	20	50,217	2.8	9.3
Békés	39	140,568	7.8	34.8
Borsod-Abaúj-Zemplén	284	377,166	21.0	50.4
Csongrád	12	36,219	2.0	8.3
Fejér	19	46,493	2.6	11.0
Győr-Moson-Sopron	8	2,405	0.1	0.6
Hajdú-Bihar	48	158,468	8.9	28.8
Heves	40	58,350	3.3	17.7
Jász-Nagykun-Szolnok	39	183,171	10.2	43.5
Komárom-Esztergom	9	40,762	2.3	13.0
Nógrád	111	186,447	10.4	83.7
Pest	7	9,981	0.6	1.0
Somogy	104	47,069	2.6	13.8
Szabolcs-Szatmár-Bereg	167	285,455	15.9	50.7
Tolna	37	33,392	1.9	13.3
Vas	46	21,490	1.2	7.8
Veszprém	57	19,413	1.1	5.1
Zala	115	50,090	2.8	16.6
Total	1,325	1,792,516	100.0	17.4

Source: Magyar Közlöny, 1992. N° 168.

Together with the increase in the number of assisted settlements in Baranya and Borsod counties, the re-designation resulted in the overall increase of designated assisted settlements.

The Government Decree (161./1993) defined three categories of state subsidies to be financed from the Regional Development Fund as follows:

- non-repayable subsidies;
- repayable subsidies;
- interest rate subsidies.

The rate of award of interest rate subsidies was differentiated by development priorities. The award limit for subsidies granted for the creation of a new job is HUF 500,000. Repayable subsidies should be cleared within four years, with a one year loan repayment holiday following the realisation of the projects.

The on-going attempts to regulate regional policy were evidence of the continuing problems arising from central Government ministerial conflict. Although preparations for a regional development act started in 1992, and a concept for its regulatory system was prepared in 1993, it failed because the Ministry of the Interior and other ministries opposed it. The *Decree (169./1993) on the detailed rules of allocation of the Regional Development Fund* at the end of 1993 did not bring a fundamental change in the utilisation of the Fund.

The favourable changes included in the Decree were:

- the possibility for the provision of repayable and interest subsidies;
- the Regional Development Board representing various actors of regional development is to be consulted by the regional policy committee where available;
- financial assistance can be obtained (up to 70 percent of the costs under certain conditions) to contribute to the preparation costs of a regional development or crisis management plan.

However, as the Decree did not fundamentally change the conditions or concepts of regional development, the critical remarks also remained valid. There were a number of other less favourable aspects to the Decree. First, no steps were taken towards the decentralisation of regional policy. If regional development boards had been given the authority for decision-making and financial resources in the spirit of decentralisation, they could have been established in a shorter period of time. The interest subsidy fund for the development of village tourism should also have been decentralised and the Inter-Ministerial Committee should not deal with the allocation of these relatively small items.

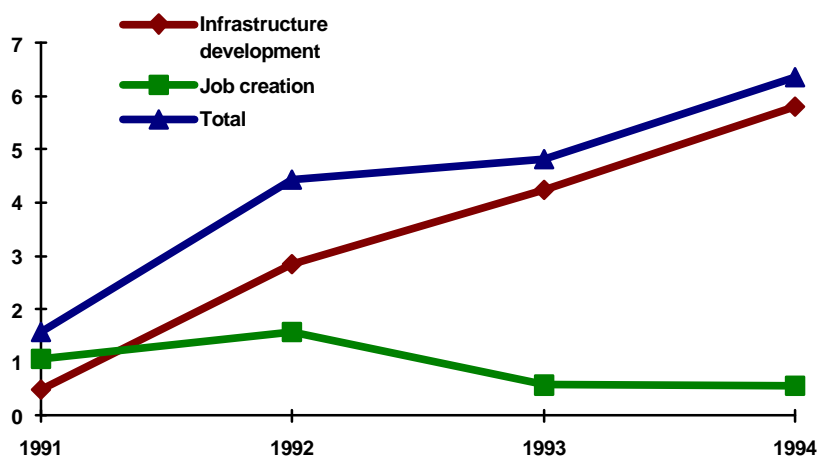
Second, the use of the same management techniques for the problems of areas hit by unemployment and for backward areas cannot be accepted. Apart from the rational non-agricultural land utilisation, the same targets are supported by the Fund in both fields.

Third, in spite of the original idea of RDF the job creation expenditures have continuously been decreasing from 1992 (*Figure 6*).

Some observations may be made on the basis of the four-year operation of the Regional Development Fund. There were significant regional differences in the state subsidy system. Between 1991–1993, eighty percent of the total

HUF 13.72 billion of the Regional Development Fund were allocated to Szabolcs-Szatmár-Bereg and Borsod-Abaúj-Zemplén counties. The award rate per capita was HUF 11,657 and HUF 5,580 in these two cases.

Figure 6: Regional Development Fund expenditures, 1991–1994, billion HUF



Source: Ministry of Environment and Regional Policy. Designed by the author.

In 1991–1992, the Regional Development Fund granted support for the creation of 10,500 new jobs, 53 percent of which were created in Borsod and Szabolcs counties (61.2 percent of awards were used for this purpose). The cost-per-job of subsidies was between HUF 114,000 and HUF 537,000.

The principal issue regarding the spatial distribution of the Regional Development Fund was the excessive concentration on the northern and north-eastern regions, mainly on Szabolcs-Szatmár county. Although this region has the most serious problems, and is the most underdeveloped county, such a high concentration of resources is in harmony neither with the number of underdeveloped settlements, nor with their population nor with the degree of their underdevelopment.

Regarding subsidies, it is difficult to understand why almost 80 percent of subsidies were allocated to two counties and at the same time the four Southern Transdanubian counties, which suffered from a high rate of unemployment and backward settlements, were allocated only 4.25 percent. It is also difficult to see why Szabolcs-Szatmár-Bereg county with 167 assisted settlements received 150 times more state support than Baranya, with 156 problem settlements (*Figure 7*). Award of Regional Development Fund per capita by counties shows very large disparities (*Figure 8*).

3. Beginning of a new era of regional policy: legislation of 1996

3.1. The Law on Regional Development and Physical Planning

In order to assist the balanced regional development of the country and the socio-economic development of its regions, to implement a comprehensive regional development policy, in accordance with the content of the European Regional and Spatial Planning Charter and taking into account of the regional policy principles of the European Union, Hungarian Parliament adopted the *Law on Regional Development and Land-use Planning* on 19 March 1996 (XXI./1996).

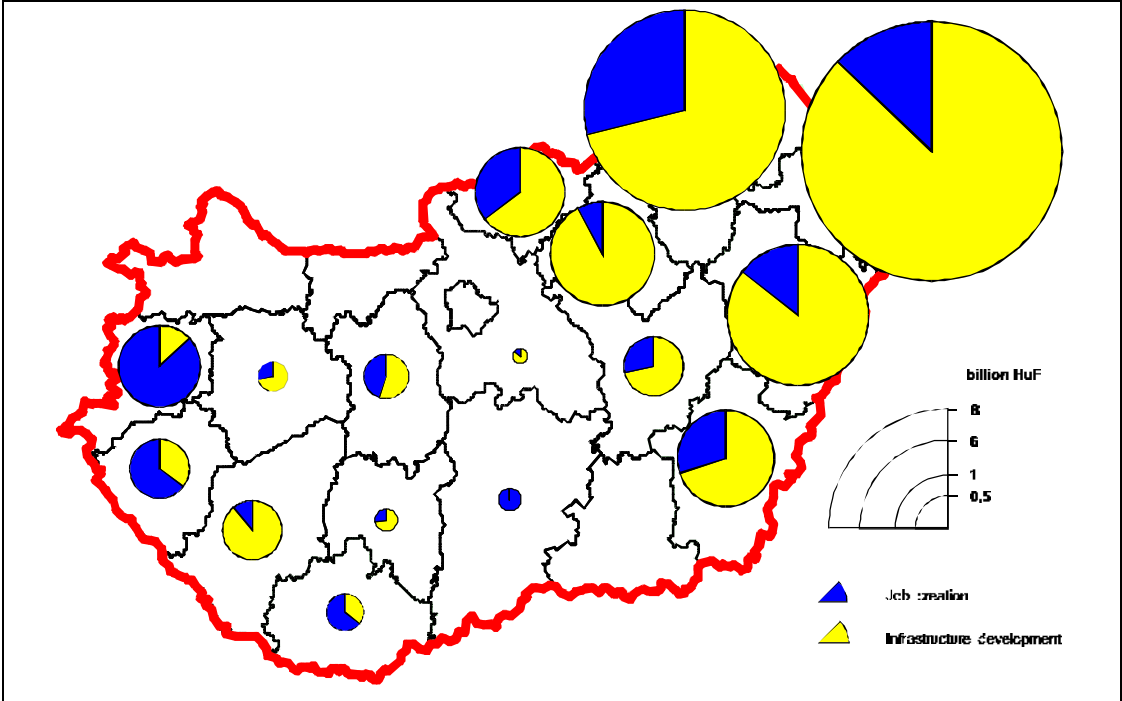
The objectives of the Law are:

- to assist the development of a market economy in every region of the country, to create the necessary conditions for sustained growth, to improve economic conditions and the quality of life through co-ordination between social, environmental and economic interests;
- to create the conditions for self-sustaining development;
- to reduce adverse differences in terms of living conditions, economic, cultural and infrastructural conditions between Budapest and the rest of the country, towns and villages, as well as developed regions and ones at a disadvantage;
- to encourage initiatives by regional and local communities and to co-ordinate them with the national objectives.

The main principles of the Law are as follows:

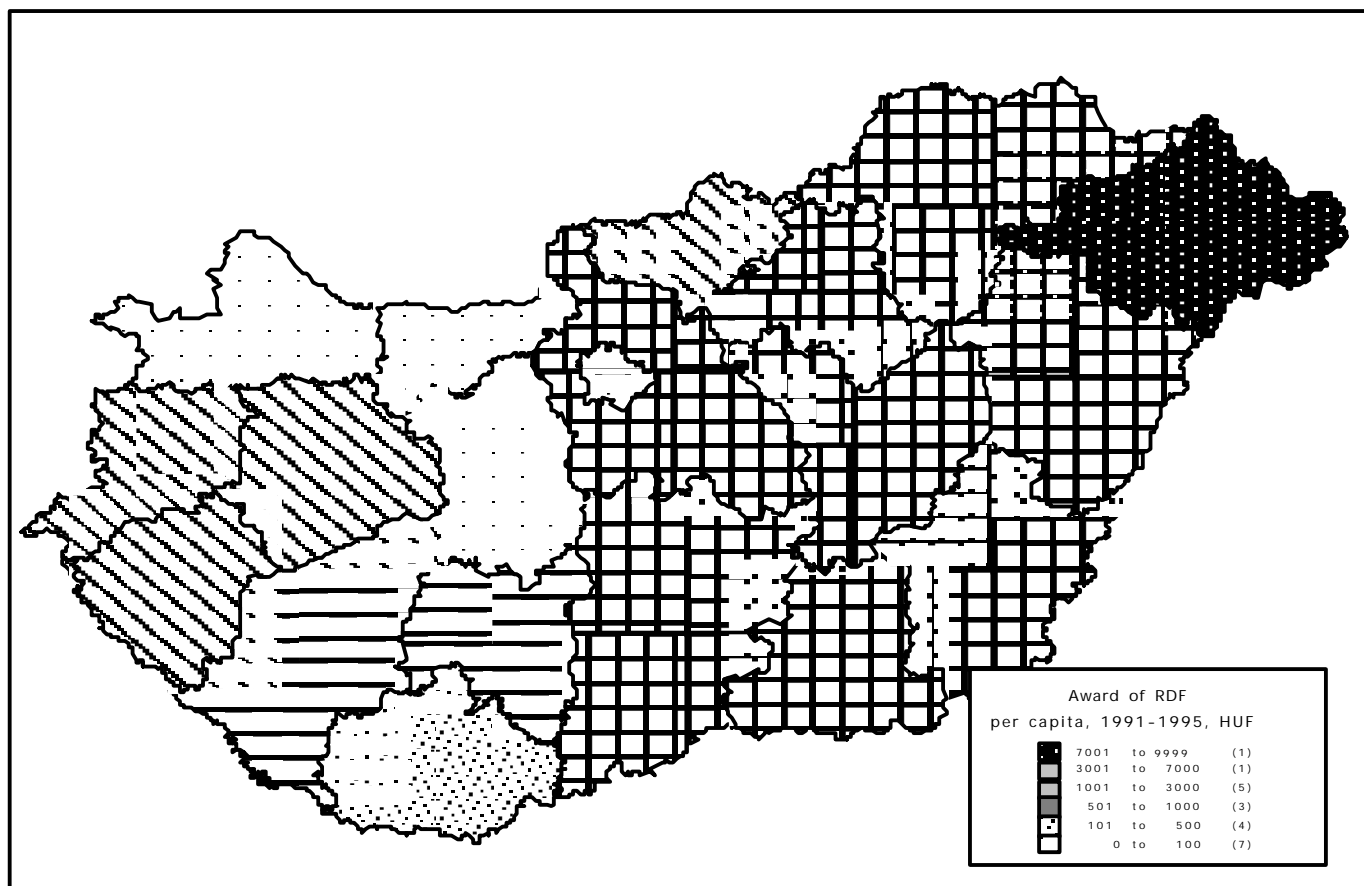
- decentralisation,
- subsidiarity,
- partnership,
- programming,
- additionality,
- transparency and
- concentration.

Figure 7: Distribution of the RDF by counties, 1991–1995



Source: Ministry of Environment and Regional Policy. Designed by the author.

Figure 8: Award of RDF per capita, 1991–1995



Source: Ministry of Environment and Regional Policy. Designed by the author.

The Law determines the tasks and competence of central state organs and regional organisations. The tasks of the Parliament are:

- to approve the national development strategy, as well as the principles, objectives and long-term priorities of regional policy;
- to approve regional development and physical plans covering the whole of the country and the regions of high priority and determine the elements of plans that are binding for local governments;
- to determine guidelines for regional development support and the criteria for the designation of eligible regions;
- to determine, in course of the implementation of the Annual Budget Law, the funds used for regional development;
- to determine self-government tasks related to regional development;
- to request the government to report on the development of regional processes and the implementation of regional policy.

The Law orders to establish a new organ for assisting the Government in carrying out regional development. The *National Council for Regional Development* has competence to make proposals, comment and co-ordinate.

Regional development tasks within the country are co-ordinated by the *County Development Council* consisting of representatives of county general assemblies, local government associations, economic chambers, employees interest representation organisations and Ministry of Environment and Regional Policy. The CDC co-ordinates the development ideas of the central and local governments and various actors of regional development:

- examines and evaluates the social and economic situation and endowments of the county;
- makes proposals for the long-term development concept, medium-term programmes, sub-programmes and major development objectives and tasks;
- make proposals for development objectives and using various financial resources;
- participates in the preparation of decisions concerning the allocation of local government supports, as well as separate state funds;
- determines evaluation guidelines for programmes.

Members of the county development councils are:

- president of the county assembly;
- mayor(s) of town(s) of county status located within the county;
- representative of the minister in charge of regional development and land-use planning;
- representatives of the regional economic chambers;

- representatives of the development associations of local self-governments within the county (one representative per each statistical district,¹ 5 to 10 people depending on the size of the county);
- a representative of the county employment council (the tripartite institution in charge of regional labour market policy).

In the institutional system the *county general assemblies* have a weak position, their tasks comprise co-ordination of social infrastructure and approving the long-term development strategies and programmes. This undervalued role of territorial governments causes many problems in the future.

County governments may - by taking into consideration the recommendations of the Government - set up a *regional development council* in order to implement regional development and physical planning tasks involving areas outside the county boundary. The operation of this organ cannot be foreseen. Because of its lack of instrumental powers it is the dark horse of the new regional policy.

3.2 Scientific background of the Law

It has been a practice in Hungary too that in some – mainly initial – phases of the preparation of acts, regional researches are given an active role. In order to get acquainted with the functional logic of the social activity to be regulated by the law, to explore its inner and outer connections and to work out its effect mechanisms one needs thorough knowledge, theoretical skills, and consequences drawn from the evaluation of practical experiences.

It can be said without any bias that in the creation of the legal frameworks of the systemic change, Hungarian social sciences have had a role not well enough appreciated so far. They would deserve special recognition in establishing the change of paradigm, for they were able, besides having a good knowledge on the special features of Hungarian development, to give answers to the European correlations of the transformation. It is not by any chance that in matters of legal harmonisation Hungary has the most favourable position in East-Central Europe. We have to admit that building the legal system of the European Union into the Hungarian legal regulation is also the merit of the Hungarian social sciences (*Kecskés, 1995; Harmathy, 1995*).

The legal regulation of regional development, however, had to follow a special path, different from the basic categories of market economy. This quest for the way was also hindered by the fact that the notions used in state

¹ The system of statistical districts (small areas) is a system covering the total area of the country, and not crossing the county borders. Statistical districts are groups of geographically contiguous settlements, having actual working, residential, transport and secondary provisional connections (education, health care, trade etc.). In the statistical district system localities may belong to one or more central settlements' catchment area. All towns are centres (or co-centres) of attraction, however there are also villages with central role.

socialism were often rejected. Nevertheless, for the sake of modernisation we cannot avoid re-stating some seemingly outdated categories.

Trust is fading in any scientific notion if its political content is exaggerated. During its three decades of development, regional development could not avoid this fate, either. In the beginning the Marxist social theory rejected it as an independent partial policy and reduced it to a single tool serving the planned economy. Later – in the peak time of the socio-economic reforms – the initiatives that urged the development of decentralisation, but were weak and isolated, were handled with mistrust, too. These initiatives were many times labelled as being provincial – an honour with doubts. Although research concepts were stated about the need for an innovation-oriented regional development policy, there was no demand for its detailed implementation, because of the attitude of the economy against innovations. It was the consequence of insufficient knowledge of the functioning of the market economy that in the very beginning of the 1990s the propositions of the professional groups urging the creation of the system of objectives, tools and institutions for up-to-date regional development were refused by political representatives, many times expressing slogans against the restoration of some elements of the planned economy (*Illés, 1992*).

The Hungarian researchers of regionalism expressed in many forums – almost like maniacs – their consequences drawn from the analysis of the regional processes in Hungary in the 1980s and the evaluation of the regional changes of the Western European post-industrial development. The researchers of the regional processes pointed out several reasons for the failure of the former regional development policy:

1. The interrelation between economic policy and regional development policy did not exist, the economic policy based on the principle of sectors did not take regional aspects into consideration;
2. The organisational and functional system of regional policy was divided, the efforts of the central organs competing against each other eliminated one another. Regional policy was essentially not more than an accumulative, consumer type urban and village development;
3. The responsibility of regional policy was mainly a socio-political one. Employment and living conditions were the starting and final points that regional policy had to choose, consciously breaking all the ties that could have enabled any influence on the reasons behind, the triggering processes;
4. The lasting lack of resources, the few and centralised tools, the eclectic objectives of support significantly restricted the space of regional development, forcing its productivity within very narrow limits.

The point in the arguments of the researchers for the importance of a new regional policy was that in Hungary, like in Western Europe, a few things were inevitable, namely:

- Firstly, the moderation of the negative phenomena caused by economic transition and market processes (unemployment, increasing gap between incomes, differences of living conditions);

- Secondly, the elimination of the obstacles to the spatial penetration of innovation (service industry, technological renewal, integration into the European network economies);
- Thirdly, a co-operation, a clear division of labour and a development coalition of the central state, the local-regional communities, the public and private sphere (*Enyedi*, 1994, 1995; *Horváth*, 1992; *Hrubi*, 1995).

The results of the researches also drew attention to the fact that a Europe-conform restructuring of the Hungarian regional policy is necessary, not only because of the change of the political system, but also because the processes that influence regional development have reached an important crossroad: After the end of the traditional industrialisation, the post-industrial phase begins with significant rearrangement among the sectors, in all points of the economy a fundamental technological renewal is needed in order to enhance competitiveness, finally, the control of the society is based on the co-operation of autonomous communities (*Enyedi*, 1989).

The consequences drawn from the analysis of the processes of the recent past and the evaluation of the European development have their direct or indirect effect in the Law on Regional Development. In spite of the political compromises the Law constitutes a legal document that can achieve the appreciation of the European professional public opinion:

1. Its objectives are compatible with the principle of social justice and fairness (irrespective of the spatial location of the place of residence, all citizens have the right to have their share from the growing wealth of the country), the political principle of equality (it serves the strengthening of the cohesion among the spatial constituents of the country), and is basically oriented towards economic development;
2. With its organisational system it builds on the principle of partnership, the natural division of labour among autonomous institutions, it is decentralising by its character;
3. It operates with market-conform tools, it creates a possibility to use regional economic regulators, it can force the measurement of the efficiency of the used tools, a visible and clear responsibility of the certain organs.

The Law of 1996 thus in principle created a Euro-compatible system of regional development in Hungary. Its basic features are very different from the regional development practices of the socialist planned economy and of the transition following the systemic change (*Table 3*). The new era, started by the Law on regional development, can only be called decentralised, however, with some restrictions. The basic principles and the text of the Law allow for an optimist assessment, but the wide range of open question to be arranged during the implementation is worrying. What is the guarantee for the assertion of the European principles in formulating the Government decrees? What if the bureaucratic interests of the central apparatus of regional development overcome, the new system of regional development flows towards intermediate solutions and can only be called as deconcentrated? This fear seems to be justified by the arguments about the scales of the decentralisation of the central resources for regional development and by the

measurements made by the Government so far in working out the regional development concept of Hungary.

Table 3: Transitions of Hungarian regional policy at the end of the 20th century

The policy's	Bureaucratic (1985–1990)	Transitory (1991–1995)	Decentralised (1996–)
Aim	Equalisation	Equalisation	Restructuring
Object	Underdevelopment	Underdevelopment	Moderation of the negative effects of the market
Target group	Underdeveloped region	Underdeveloped settlement	Problem region
Tools	Regional Development and Organisation Fund, planning	Regional Development Fund, projects	Earmarked provision for regional development, additional resources, programming
Way of financing	Centralised	Centralised	Decentralised
Form of incentive	Automatic	Discretionary	Discretionary
Dominant element of the implementation	County council	Local government of the settlement	Regional Development Council
Effect on developments	Isolated	Isolated	Integrative
Dominant favoured sectors	Industry	Infrastructure (gas, telephone)	Manufacturing, business services, innovations
Population concerned	4%	17%	28%
Scales of direct financing	0.05% of GDP	0.2% of GDP	0.3–0.5% of GDP

3.3 The lurking threats

Although we have to welcome the fact that those responsible for the preparation of the Law built the bigger part of the proposals of the scientific public opinion into the norm text, at the same time we feel obliged to call the attention to our doubts and to the threats that are present during the application of the Law. If we take a closer look at the details, the new regional development policy of Hungary, compared to the common regional policies of the European Union, still shows many differences. What are the most striking differences?

1. In Western Europe much higher amounts are spent on supporting regional development – depending on the scales of regional differences – than in Hungary. In many cases the volume of the grants amounts to 1–1.5% of the national GDP, although a part of the resources of the financial incentives does not burden the national budget as it comes in the form of EU-grants;
2. In the countries where innovation shows a dominant regional concentration (is concentrated in only one centre), regional policy is strengthened, besides its own tools, by acts serving the decentralisation of certain activities;
3. The proportion of the population living in the eligible areas is double the Hungarian proportion in 1995;
4. The designation of problem regions takes place with relatively exact indices, by different methods. The basic element of the designation is never a settlement but a bigger regional unit (small region, county, region). The primary designation criterion in the major part of the countries is the income-generating ability and lasting unemployment in the region;
5. The distribution of grants among the designated problem regions is relatively balanced, despite the measuring (discretionary) type of the grant management, while in Hungary the north-eastern counties – partly because of political causes – were awarded grants unproportionately higher than the weight of their population;
6. The sectoral orientation of grants is towards manufacturing and exporting business services in Western Europe, while in Hungary infrastructure has been dominant so far. The very few job creating investments in industry and services were not required to contribute, besides increasing the number of employees, to strengthening the regional cohesion, either;
7. The organisational systems responsible for the monitoring of regional development grants show many special characteristics country by country in Western Europe, depending on the philosophy of the state organisation. Still decentralisation is a general tendency: The regional governments are given a significant role in the evaluation of the grants and influencing their use even in those countries where the central state system plays a dominant role in the control of regional policy and the competences of regional governments are strongly limited;
8. The aim of the regulation of regional development in all countries is the successful implementation of the regional development strategy of the nation. Even the most elaborately prepared and worked out law becomes

insignificant if its creators do not state their propositions built on strategic plans. The decisionmakers of the Hungarian regional policy made a mistake: They initiated the working out of the regional development concept of Hungary too late, despite the propositions of the researchers. This mistake can be partly mended if the concept builds from bottom up, takes the needs and requirements of the regional communities into consideration, and does not only try to harmonise the regional allocation of sectoral developments. The answer to the question "how to build strategies" can be regarded as another milestone of the future of Hungarian regional development, of its integration into Europe.

The presently working systems in Western Europe have already proved their favourable effects on the improvement of the income generating ability and competitiveness of the regions, on increasing the number of jobs and decreasing unemployment. In case of their consequent application, similar results can also be expected in Hungary.

For the financing of regional development and the creation of the new incentive regulation, the conditions are partly favourable in Hungary. The Law on Regional Development and the Regional Development Concept of Hungary contain many elements of the Western European development models and the EU regulation. A new incentive system of regional development can be built on them. The reform of the state budget and the restrictions of the regulation of state expenditure can promote the operation of the resources of regional development, too.

However, unfavourable factors must also be taken into consideration. Because of the deficit of the budget, the reluctance to give up any right achieved and the effective skill of the local governments of settlements to assert their interests, increasing the amount of the resources of regional development is difficult. The melting of a major part of the separate state funds into the budgets of ministries weakens the chances of co-ordination, the local governments of the settlements are reluctant to abandon their addressed and target grants.

It will not be easy at all to adapt the Western European experiences because of the special features of the Hungarian system of public administration. It is feared that the planned base institution of regional development – the addressee of the decentralisation of the central earmarked provision for regional development – will integrate into the regional institutional system of public administration with more difficulties than expected. In order to assert the principles of additionality and programming, a legally not too strong institution has to co-ordinate among much more actors in Hungary. These difficulties may strengthen central intervention, decentralisation can, if we look at its quality, relatively easily transform into a deconcentrated regional development especially if the regulation of the earmarked provision for regional development is not considerate and normative enough. Thus it is very important to clearly state the rules of the use of central resources for regional development, with special respect to

- the forms of decentralisation of the support resources;
- the range of activities to be supported and their regional effects;

- the continuous control of the used grants;
- the designation of the eligible regions.

We have to stress these doubts because experiences have taught us: if the professional public opinion is not united concerning these basic questions, if it has difficulty in following the trains of thought of the changes, then the logic of the system can be damaged in the application of the Law and the original objectives cannot be carried out.

After the 1998 general election the new right-centrist Hungarian government reorganised the management centre of regional policy. The Ministry of Environment and Regional Policy was abolished and regional tasks were given to the newly created Ministry of Agriculture and Rural Development. This political solution, which was a result of negotiations of coalition parties, and the main demand of the Party of Small Holders, involves the risk of limiting regional actions on the rural and agricultural development. Meanwhile, a new secretariate of the state is being organised in the Prime Minister's Office, activity of which will focus on regional policy and administration affairs. So, in the future the regional policy in Hungary will probably be exposed to quarrel of power.

3.4 The National Regional Development Concept

In a market economy, which is primarily based on private ownership, and in a plural democracy, which has eliminated the centralisation of political power, the function which regional development policy had in the former centralised, not market-orientated system must be changed fundamentally, due to the following factors:

- The majority of the levelling and redistributive mechanisms that were built into the former price, wage and income regulations have been eliminated and *the differentiating* (occasionally levelling) and selecting forces of the market have become active. General economic rules and the basic elements of economic policy seem to be leading to more significant regional and local differences and conflicts, and the management and balancing function of regional policy is, therefore, becoming more intensive;
- The hierarchical dependence of economic organisations upon sectoral ministries and the structuring of the economy on exclusively sectoral principles have also been disposed of. National companies have split into independent plants and regional units. In view of this, regional co-operation and the structuring of the economy on a regional basis have gained more significance;
- The political autonomy, decision-making and financial management competence of municipalities, as well as the great increase in their number, have given regional policy a new profile and dimension. It must be taken into consideration that the majority of decisions concerning regional development will be made in a decentralised way. The regional policy of the Government should provide the tools for co-ordination, co-operation and orientation in this process;

- Instead of a few ministries and large companies, the spatial structure is now made up of several hundred thousand entrepreneurs, economic organisations, non-profit-making organisations, their associations and interest representation organisations. The number of actors participating in the process has increased enormously. Regional policy must involve existing interest representation organisations in the decision-making process, must set up (or assist the setting-up of) those which are currently missing at all levels of regional and local development in order to ensure that its objectives are implemented on the basis of the widest possible social consensus;
- With the integration into the European Union in view and with regard to Hungary's special characteristics and problems, both our institutions and instruments should be harmonised with the existing and foreseen future requirements of the EU.

The future of the Hungarian spatial structure was drawn up by the *National Regional Development Concept* which was adopted by the Parliament in March 1998 (*Parliamentary Resolution 35/1998*). The *aims* of the Concept are as follows:

- to determine those regional development principles, guidelines and aims – in the long term – suited to the international condition-which are followed by the Government during its own regional development activity and which the Government wants to orient the other actors of the regional development;
- to detail those regional targets to be asserted in the sectoral development policies of the Government;
- to promote the fulfilment of the tasks of the new institutional system influenced by the Law on Regional Development and to create the harmony between the regional and those of the counties.

The *tasks* of the Concept are:

- to change the *spatial structure* in a way that it can provide a basis and framework for effective, innovative and competitive economic activities and can, thereby, contribute to the dynamic development of the economy and increase its income-generating capacity;
- to reduce differences in social and economic opportunities, to approximate civilisational and infrastructural conditions at the level of larger regional units and settlements and to tackle the social problems of seriously underdeveloped regions and settlements;
- to develop *programming (planning) methods, instruments and institutions* which – if concentrated on regions or areas of an appropriate size – are capable of identifying and managing structural crisis at an early stage and can, therefore, contribute to their solution;
- to assist the *mobilisation* and utilisation of the *regional* (human, natural and other) *resources* of economic development;
- since conflicts concerning the environment and land-use, which cannot automatically be regulated by market forces, and conflicts arising from

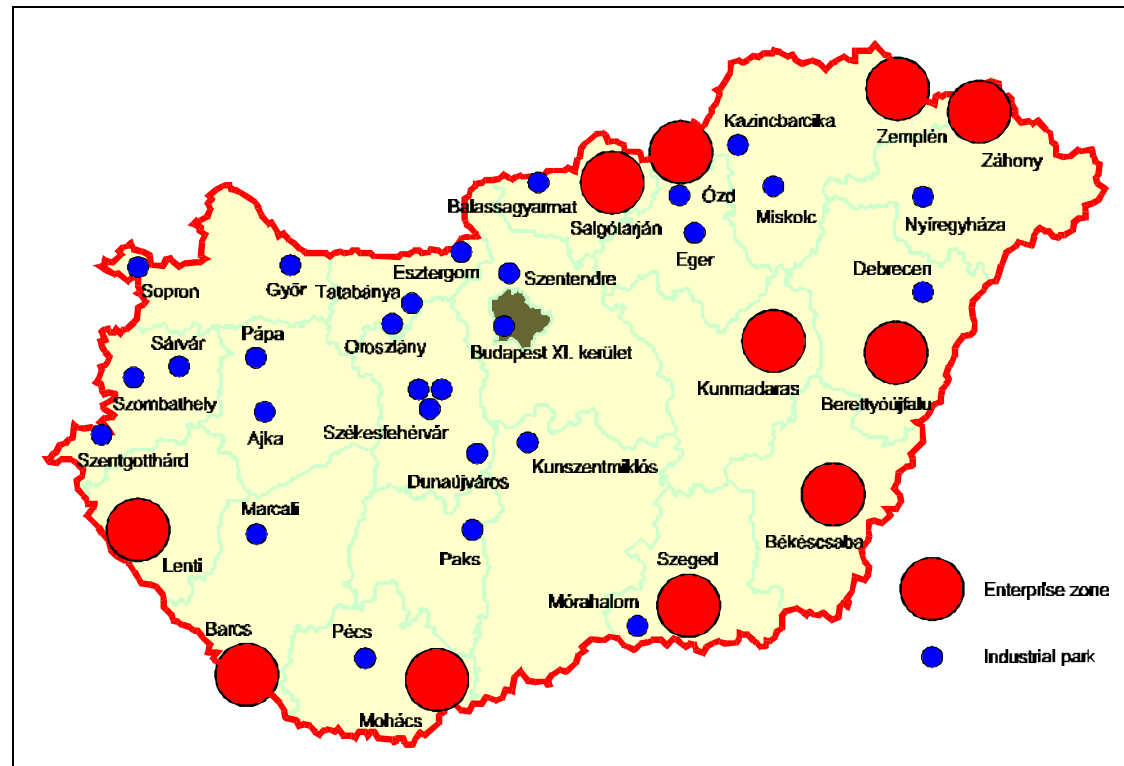
the fact that the scarce resources have to be shared mainly at the regional level, the *role of regional policy in co-ordination* between the various sectors and ministries is as important as the co-ordination carried out at the national level;

- to encourage *cross-border co-operation* and relations and, thereby, contribute to the better use of the potentials of regions and settlements that have become peripheries of the country due to the creation of political borders.

The Hungarian State has huge debts, high payments and budgetary deficits, which are impossible to maintain in the longer term, and high inflation. It is, therefore, unavoidable that the focus and main priorities of regional development will be different in the short term and the long term. They are not, however, mutually exclusive: short-term priorities will not hinder actions taken in order to achieve long-term objectives and vice versa. *Medium-term* priority objectives are:

- to remove institutional and technical barriers (i.e. to settle the ownership structure, solve infrastructural bottlenecks) and use the general instruments of *enterprise promotion* in regions where economic development has already begun or is expected to begin in the near future, to establish enterprise zones and industrial parks (*Figure 9*);
- to tackle the *crisis* caused by acute social and *employment problems*. In addition to the inevitable provision of unemployment benefit and social assistance, education, training and retraining, community work, which can help solve the infrastructural, environmental and social problems of settlements, and, in hopeless cases, the encouragement of migration to a reasonable degree and direction should be given an increasingly important role to play;
- to start the *restructuring process* through concentrated intervention in the regional focal points of the economic crisis (first of all in mining regions, the main sites of military and garment industry and in agricultural regions with uncompetitive production or with lost markets);

Figure 9: Enterprise zones and industrial parks in Hungary, 1998



Source: Ministry of Environment and Regional Policy, Ministry of Industry, Trade and Tourism. Designed by the author.

- to formulate an adequate regional mobilisation policy based on internal development potentials and aimed at the reduction of regional social, demographical and ethnic segregation.

The *long-term* priorities of regional development are:

- to bring the spatial structure of economic activities in line with the requirements of sustainable development and the natural and environmental potential of the individual regions, while maintaining those values of the settlement structure which are worthy of preservation and taking into consideration the aesthetic aspects of landscaping;
- to *create equal opportunities* for communities living in different regions and settlements in terms of economic activities, business opportunities, civilised living conditions and incomes proportionate to the work and risk undertaken;
- to ensure that Hungarian regions, large cities and other central settlements of different levels and with various functions are integrated into the European region with common and open borders and take their functions within the European network of towns and cities established on the basis of a fair division of labour, establish the position of the country in terms of transport, communication and tourism and create the preconditions required for fulfilling the functions of a European regional centre offered by the geographical situation of the country.

4. Instruments of regional policy

Regional development processes are primarily influenced by the general economic state and regulation of the country and, secondarily, by the specific instruments of regional development, which are of a limited size and effect. As a consequence, requirements concerning the general system of economic regulations and institutions have priority. Planning and incentives have already been included in the system of instruments of state influence, which is becoming wider and more flexible. A clear intention has also been expressed to decentralise the system of distribution and to use state funds in a more concentrated and target-oriented way.

The Law on Regional Development has created favourable conditions for a differentiated regional development policy. Developing regions are given a greater role to play and the Law provides them with the infrastructure and other conditions of operation that may accelerate their integration into the large regions of Europe. Regional policy does not only imply crisis management and regional equalisation. Regions that are more active in the field of innovation and have reached a more advanced stage in closing-up and modernisation should also receive regional development resources (*Horváth, 1992; Illés, 1992*).

The significant increase in labour costs has had a negative impact on the labour-intensive production of less developed regions, in particular. It costs businesses much more to employ workers than would be justified by labour costs at the level of the national economy, since the extra employment

generated by lower labour costs would save unemployment benefit payments and would, therefore, reduce costs at the level of the national economy.

From the point of view of regional development policy, it would be desirable to reduce the rate of social security contribution paid by employers. The expansion of venture tax and personal income tax incentives in underdeveloped and disadvantaged regions should also be considered, as this would encourage the location of businesses in such regions, their long-term operation and the expansion of employment.

Prevailing bankruptcy and liquidation procedures also effect companies located in rural or crisis regions with a small capital and poor liquidity. The modification of these procedures is very urgent for underdeveloped and crisis regions.

Since a significant percentage of the GDP in Hungary is made up by goods and services purchased by the Government, the regulation of public procurement is of great importance from a regional development point of view. Regional preferences can be implemented in national or central public procurement.

The model, order and process of privatisation should also be re-considered in underdeveloped and crisis regions. In such regions, the population has little capital and either there is no interest on the part of foreign investors in the state property to be privatised or there is much less interest than in other regions. Privatisation for cash, therefore, has very limited possibilities in such areas.

In such regions, therefore, ESOP programmes and other favourable solutions or forms requiring a smaller proportion of cash should be used more extensively. It especially applies to the plants or units of large companies located in rural or underdeveloped regions or settlements, which would be liquidated without an ESOP programme or other similar forms, whereas these solutions can at least give a chance for the reconversion or further development of the plant with the help of unified local forces.

Regulations concerning financial institutions should also be modified. It would be desirable if the Law on Financial Institutions would not only make it compulsory for banks to provide a minimum range of services, but also for their branches. Banks with their registered headquarters or with a branch (branches) outside Budapest should be given preference as regards the registered capital requirement (*Illés, 1992*).

The possibility for banks to acquire property, i. e. real universal banking should be considered in certain areas. The structure of the banking system also needs reviewing. Competition and economising on state resources would require an increase in competition in the residential market, while the funds and deposits of local governments should be brought in line with the other resources of the state budget.

The new financing system of local governments should be developed further in the coming years. The high rate of subsidies should be reduced, while the share of local resources, taxes and other income in the funding of local governments should be increased. In this way, not only the central budget, but also the financial situation of s would be more closely related to the state and

income-generating capacity of the economy. The greater disparities appearing as a result could be reduced by means of equalising assistance.

Certain elements of the financing of development actions by local governments should be altered in a way that they become parts of a wider-based and more flexible decentralised allocation mechanism. It is essential to re-regulate finances in a way that it prevents indebtedness and ensures a more effective control of financial management.

The implementation of regional development objectives should be ensured by the co-ordinated operation of general economic and local government regulations and the systems of normative instruments and special financial instruments available for certain regions.

Among special regional development instruments, the Targeted Budgetary Allocation for Regional Development, which the Ministry of Environment and Regional Policy took over from the *Regional Development Fund*, is of great importance. It provides grants, loans and interest subsidies to assist the implementation of development efforts in beneficiary regions.

The other significant financial instrument is the *Regional Equalisation Framework* supporting the infrastructure development efforts of local governments, which is fully decentralised on the basis of the indicators of development. County development councils will invite applications for these funds. During the allocation of the funds, the special features and development needs of the county, the lack of resources for development actions carried out by local governments and important development objectives that are not included in other support systems (e.g. infrastructure related to tourism) should be taken into consideration.

The objectives of the Targeted Budgetary Allocation for Regional Development are (*Government Decree 31/1998*):

- to reduce significant social and economic differences between regions in terms of living conditions, economic and cultural conditions and infrastructure;
- to assist the co-ordinated use of various sectoral grants and the implementation of the integrated restructuring programmes;
- to assist the involvement of international financial resources in regional development programmes;
- to assist cross-border co-operation between border regions, common planning and co-ordinated development on the basis of bilateral and multilateral agreements.

Assistance may be given from the budgetary allocation for the following purposes:

- job creating investments and development projects, which are aimed at market and product change and help maintain current employment levels,
- the creation of innovation centres, business incubators and industrial parks assisting enterprises, and human infrastructure development projects involving job creation,

- the preparation and implementation of regional development programmes, and the preparation of programmes encouraging the development of local communities,
- investment into productive infrastructure, which is related to economic development and assist enterprises, i.e. primarily development projects of regional importance in the field of energy, transport, piped water and sewerage networks, telecommunications and residential waste treatment,
- special targeted programmes promoting local economic development and development projects related to community work providing part-time employment,
- development projects assisting the restructuring agriculture, the utilisation of agricultural lands for non-agricultural purposes, the development of lands not included among nature protection areas and the development of rural tourism.

The objectives and maximum amounts of assistance that can be given from the Targeted Budgetary Allocation for Regional Development are specified in *Table 4*.

Table 4: Eligible objectives, forms and sizes of assistance

Eligible objectives	Forms of assistance	Eligible areas			
		Under-developed areas	Declining industrial areas	Rural areas	Areas hit by high level of unemployment
1	2	3	4	5	6
1. Job-creating investments and developments and development projects, which are aimed at market and product change and help maintain current employment levels	Non-repayable grant as a percentage of eligible costs	30	25	20	30
	or Repayable assistance as a percentage of eligible costs	50	40	30	50
	In the case of both forms of assistance, interest subsidy as a percentage of the interest of the loan	30	30	20	30
2. The creation of innovation centres, business incubators and industrial parks assisting enterprises	Non-repayable grant as a percentage of eligible costs	40	40	30	30

Horváth: Hungary

1	2	3	4	5	6
3. The preparation of programmes encouraging regional development and the development of the local society	Non-repayable grant as a percentage of eligible costs	70	70	70	70
4a Investment into productive infrastructure, which is related to economic development and assists enterprises	Non-repayable grant as a percentage of eligible costs	40	35	40	35
	Interest subsidy as a percentage of the interest of the loan	30	30	30	30
4b The construction of gas distribution networks	As a percentage of the network development contribution	20	15	20	15
	Interest subsidy as a percentage of the interest of the loan	30	–	30	–
5a Development projects aimed at non-agricultural land use	Non-repayable grant as a percentage of eligible costs	50	30	50	30
5b Development projects aimed at non-agricultural land use in the form of enterprises	Interest subsidy as a percentage of the interest of the loan	50	40	50	40
6. Investments to support the development of rural tourism	Interest subsidy as a percentage of the interest of the loan	50	40	50	40
7. Human infrastructure development projects involving job-creation	Non-repayable grant as a percentage of eligible costs	40	30	25	30
	or Interest subsidy as a percentage of the interest of the loan	50	50	50	50
8. Special targeted programmes promoting local economic development	Repayable assistance as a percentage of eligible costs	40	30	30	40

Source: Government Decree 31/1998.

The total expenditure earmarked for regional development in 1998 is HUF 20 billion, at least 70% of which will be used through the county development councils (*Table 5*).

Table 5: Regional development supports by counties

Counties	Targeted allocation	Regional equalisation framework	Total	Regional supports per capita,
	HUF million			HUF
Budapest	0	0	0	0
Baranya	290	477	767	1,892
Bács-Kiskun	473	780	1,253	2,333
Békés	330	543	873	2,193
Borsod-Abaúj-Zemplén	639	1,060	1,699	2,299
Csongrád	301	481	782	1,853
Fejér	167	253	420	983
Győr-Moson-Sopron	170	253	423	995
Hajdú-Bihar	412	677	1,089	1,994
Heves	195	324	519	1,594
Jász-Nagykun-Szolnok	371	611	982	2,357
Komárom-Esztergom	131	208	339	1,093
Nógrád	250	419	669	3,055
Pest	364	609	973	1,000
Somogy	234	387	621	1,860
Szabolcs-Szatmár-Bereg	567	953	1,520	2,657
Tolna	161	259	420	1,700
Vas	102	150	252	930
Veszprém	194	317	511	1,359
Zala	151	237	388	1,307
Total	5,500	9,000	14,500	1,431

Source: Government Decree 28/1998.

The level of decentralisation is determined on the basis of social, economic and infrastructural development, taking into account the level of development of the county (per capita GDP) and the development of the regions. In line with the Law on Regional Development and Land-use Planning, from 1996 counties and statistical areas are to be evaluated in terms of eligibility for support instead of ranking the settlements. Within the counties the following types of regions complied with the eligibility requirements:

- Small areas are considered socially and economically less developed if the complex indicator calculated with factorial analysis on the basis of the demographic, economic and infrastructural development level is less than 75% of the national average;
- In selecting the priority regions of industrial restructuring the system of indicators used in the European Union was applied. Therefore, in the evaluation process the percentage of the working population employed in the industry, and changes in the number of people employed in the industry compared to 1990, and the rate of unemployment shall be taken into account. Those regions were granted the priority status the indicators of which were different from the national average, i.e. the percentage of the population employed in the industry was higher, and the other two indicators (rate of unemployment, number of people employed in the industry compared to 1990) are less favourable than the national average;

- In selecting the regions of agricultural and regional development the EU principles were taken as a basis, but the adoption of the concrete system of indicators was not possible due to the specific Hungarian characteristics, e.g. the profitability of the agriculture cannot be measured on regional level, so the evaluation is based on the per capita personal income tax base. The other deviation is due to the fact that in most agricultural regions with a low income level the population density is usually high, there is no constant depopulation, since the natural birth rate is quite high. To avoid this deviation, a so called migration balance was incorporated into the system of indicators;
- Those small areas were put on the list where the rate of permanent unemployment (more than 180 days) was 1.25 times the national average.

The list of areas eligible for support was adopted by the Government in 1998. According to the new classification, 33.5 percent of the population lives in these areas (*Table 6*).

Table 6: Eligible areas in Hungary, 1998

Type of area	Number of areas	Number of eligible settlements	Population, '000
1 Underdeveloped	83	1,650	3,017
2 Declining industrial	6	94	284
3 Rural	38	849	1,320
4 Hit by high level of unemployment	41	911	1,742
Eligible areas*	88	1,740	3,408

Source: Central Statistical Office. * One small area may be included in more than one problem type. The number and population of the eligible areas were only counted once.

5. Concluding remarks

The complex and high-level legal regulation of Hungarian regional development, as well as its particular institutional system, is of a unique and pioneer character in Eastern and Central Europe; it could even serve as an example for a number of EU Member States. This is acknowledged in the European Commission's report on the country, as is the fact that most elements of the Hungarian regional policy are compatible with the structural policy of the EU. The goals of the Act XXI of 1996 on Regional Development and Land-use Planning are in accord with the principles of social justice, equity and solidarity as well as cohesion in general. The structure of the Hungarian Regional Development Concept and its regional orientation partly meets the requirements for a national development programme document and for the EU compatibility of long the term development goals.

The Commission Opinion on Hungary's Application for Membership of the European Union (Brussels, 15 July 1997) contains following statements of the current position of the regional policy in Hungary:

- „The Hungarian Government is well aware of the need of an active regional policy involving all Government levels;
- Hungary is the first country among Central European countries which adopted a legal framework closely in line with EU structural policy. Many sections of the new law have been drafted in the perspective of taking over the *acquis*;
- Problems still exist in implementing the newly adopted regional development policy. Institutions still have to be created and existing ones need support and experience;
- Lack of co-operation between ministries which have deconcentrated settlements and the ... county development councils, which are the major actors for regional development needs to be corrected;
- Regional co-operation between counties should be strengthened;
- Hungary's administrative capacity to manage integrated regional development programmes seems satisfactory. Thus, subject to the remaining reforms, Hungary should be ready to apply the Community rules and to channel effectively the funds from the EU structural policies.”

The above discussion illustrates that regional policy in Hungary is in a state of flux, with dynamic processes of change at regional and national levels. There is a widespread, but not universal pressure for structural adaptation within regions and localities. New forms of regional development are being introduced or revived. Different institutional structures and organisational systems are emerging, and the relationships between levels of government and between actors within regions are changing. These developments give rise to several questions or issues.

The *first* question is whether the resources available for regional development are adequate for the challenges of economic and social restructuring. By comparison with the redistributive effects of public finance as a whole, the impact of regional aid is small. The Regional Development Fund accounts for less than 0.2 percent of GDP. In the present Hungarian practice governmental regional policy is jointly assisted by the various subsystems of the budget, especially the central budget, separate state funds, and the budgets of local governments.

The volume of financial resources in the Regional Development Fund can only be increased at the expense of other state and sectoral funds, and priority should be given in the state budget reform and the revision of the state funds to the resources for regional development. The Hungarian Government undertakes that by the time of Hungary's accession to the EU it will establish a financial system corresponding to the Structural Funds of the EU:

- it will create an agricultural support system in accordance with EAGGF to strengthen and transform the structure of agriculture, to

counterbalance the impact of unfavourable geographical features on agriculture, and to foster the development of rural society, environmental protection and nature conservation;

- it will set up a Regional Development Fund corresponding to ERDF, increase endogenous potential of the regions, foster local developments, small and medium-sized enterprises, cross-border co-operation and innovation;
- it will further differentiate in the target system of the Labour Market Fund, which already almost corresponds to the target system of the EU in accordance with the ESF.

Second, the trend towards regions becoming more self-reliant may have many positive virtues, but there is a danger that regionalisation may be seen as a substitute for central Government action. There is a potentially destructive dimension to the increasing competition among regional authorities.

In Hungary, being a unitary country, the large administrative regions are absent, their formation is not urged by either the governmental agents interested in centralisation or the regional organs that wish to expand their own competences. The reform programme of the public administration of Hungary does not take the organisation of the administrative regions into consideration either. From the aspect of regional development, however, the programme regions should be organised in Hungary as soon as possible.

The weaknesses in the regional structure of the Hungarian economy and society (the dominance of the capital city in advanced activities, the extreme regional differences in income generation, the lack of regional cohesion within the semi-peripheral regions and the peripheries) can only be abolished if a strong decentralisation process takes place, that is at the same time accompanied by concentration to a certain extent. That is why the management of the organisational process of the regions can be considered as an important task.

The formation of the development-programme regions is a designation task to a lesser degree, to a larger extent it depends upon the creation of mechanisms and organisational solutions enabling the co-operation among the actors interested in regional development (regional development councils, county governments, economic chambers, companies–businesses etc.).

Finally, within Western Europe, the relationship between the EU and nation states in the field of regional policy is in need of review. Depending on the outcome of discussions over EU enlargement, such a review has always been anticipated since the EU appears unlikely to be able to extend its current regional policy to potential new Member States in Central and Eastern Europe. These concerns will have to be addressed while the key principles of EU regional policy and the commitment to EU economic and social cohesion are not to be endangered. The costs of Hungary's accession to the EU regional development budget are difficult to calculate at this stage. In our estimation regional development support for Hungary would cost 1.5–2 billion ECU.

In addition to financial restructuring a key constraint for regional development in East-Central Europe, however, is that regional policy is still in

infancy. In Hungary, however, regional policy measures have progressed far beyond the conceptual stage, the institutional infrastructure has been in action, and there has been a recent trend to achieve greater compatibility between EU and Hungarian regional policies.

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