

## THE RELATIONSHIP BETWEEN ECONOMIC POLICY, ENERGY POLICY AND THE TREATMENT OF DECLINING MINING AREAS IN HUNGARY

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### CHANGING CIRCUMSTANCES IN COAL-MINING

Hungary is poor in energy sources: natural gas and brown-coal are the most important, crude oil reserves are running out. (*Table 1*) Because of disadvantageous geological endowments, the mining of poor quality brown-coal has been more and more expensive, and mining has required continually increasing state support and credit even during the last decades. This decrease in domestic coal cannot be replaced with other sources of energy: the specific Hungarian geographical relief is not favourable for building water power stations (those that have been built have caused more damage till now than advantage), the only Hungarian uranium mine was closed down in 1989, the nuclear power station works with Soviet raw material.

*Table 1*  
*Energy production and consumption of Hungary, 1986*

Source of energy	Production (%)	Consumption (%)
	1986	1985
Coal	36.6	25.6
Oil	11.8	32.3
Natural gas	33.7	27.7
Other hydrocarbon	4.7	12.6
Nuclear energy	10.7	
Hydro energy	0.2	
Others	2.3	1.8
Total	100.0	100.0

Source: *Conception for the long run energy policy. Report for the Council of Ministers — 1989; Statistical Yearbook, 1986 — Central Statistical Office, Budapest*

At the same time, energy consumption is increasing, although the growth rate of the economy has significantly diminished. (Table 2) No doubt, the energy consumption of the population has been increasing more quickly than that of total production, but of course, the main consumer is industry. (Table 3) The wasting of energy in the currently deformed Hungarian economy is demonstrated by the fact that three to four times higher energy consumption falls here on unit GDP compared to highly developed countries. (Table 4) Another surprising fact: the 15 biggest industrial enterprises use about 60% of industrial energy, producing only 10% of the industrial GDP.

**Table 2**  
*Yearly average growth rate of Hungarian economy, 1970–1988*

	1970–1978	1979–1988
GDP	5.6	2.2
Gross industrial production	6.0	1.6
Total energy consumption	4.1	0.6
Electric energy consumption	6.8	3.0

Source: *Statistical Yearbooks, 1970–1989* — Central Statistical Office, Budapest; Grouping by dr. József Papp

**Table 3**  
*Energy consumption in Hungarian industry, 1986*

Branch of industry	%
Mining	6.0
Electric energy	3.8
Metallurgy	29.7
Machinery	7.5
Building material industry	10.8
Chemistry	27.7
Light industry	6.0
Others	0.3
Food industry	8.2
Total	100.0

Source: *Industrial Statistical Yearbook, 1987* — Central Statistical Office, Budapest; Grouping by dr. József Papp

In Hungary energy policy has been running on the same forced course as the other parts of the Soviet-type economy: the predominance of heavy industry, the extensive increase in production, and the wasteful mechanism of the economy required the forced increase of energy production, as well. (Table 5)

The enormous investment for mining has exceeded the financial capacity of the economy, contributing enormously to the dramatic indebtedness of Hungary. (Table 6) Unfortunately, these energy investment programs were faulty decisions as political economic ideas, on the one hand, because parallel to the economic restructuring of the Developed World, Hungary and the other formerly socialist countries have kept their energy and material intensive traditional industries. (Table 7) But, on the other hand, they were themselves badly planned, prepared and implemented in-

vestments from a technical point of view. As a result, a part of them had been cancelled or finished at a loss (for example: the common Hungarian-Soviet construction of gas-pipeline in the Soviet Union; the water power station at the Danube bend; new "Eocen and Liassic Programs" in order to increase the black- and brown-coal-mining etc.).

Of course, Hungary needs considerable energy import in spite of all efforts to force the domestic generation of energy. Approximately 50% of energy consumption is covered by import. It is a well-known fact that Hungary, similarly to the other Eastern European countries, has received energy from Soviet sources. During the last forty years this economic orientation has never been questioned partly because of Hungary's political alignment and the same social-economic system existing in these countries, and partly because of the very low prices of Soviet raw materials, and the location of infrastructure built up for energy transport and refining.

Hungary has recently changed its political and economic system, which directly or indirectly would have an influence on energy policy, and consequently on coal-mining, as well. The way out of the social-economic crisis cannot be conceived without a fundamental restructuring of the economy. Enterprises working at a loss, among them a lot of large heavy industrial ones, are going to close: this tendency will have to decrease the demand on coal, as well. Its effect, of course, cannot be predicted yet.

**Table 4**  
*Energy consumption of production, 1982*

Countries	Energy consumption *
Austria	0.41
Belgium	0.62
United Kingdom	0.52
France	0.40
Greece	0.52
The Netherlands	0.60
Hungary (1983)	1.96
West Germany	0.51
Italy	0.47
Spain	0.48
Sweden	0.42
Japan	0.39
USA	0.71
Canada	0.80

\* *Equivalent tons of coal per 1000 USD GDP*  
Source: *International Statistical Yearbook, 1986 — Central Statistical Office, Budapest; Grouping by dr. József Papp*

**Table 5**  
*Structural change in energy production*

Source of energy	1950	1960	1970	1980	1986
Black coal (1000 t)	1,400	2,847	4,517	3,065	2,325
Brown-coal and lignite (1000 t)	11,868	23,676	23,679	22,636	20,804
Oil (1000 t)	512	1,217	1,937	2,031	2,005
Natural gas (million m <sup>3</sup> )	381	342	3,469	6,142	7,022

Source: *Enyedi, Gy.: The economic geography of Eastern Europe — Közgazdasági és Jogi Könyvkiadó, Budapest, 1978; Statistical Yearbook, 1986 — Central Statistical Office, Budapest*

**Table 6**

*Maximum and minimum of proportion in industrial investment by branches in Hungary, 1960–1987*

Branch of industry	Minimum, %	Year	Maximum, %	Year
Mining	8.8	1972	22.0	1985
Electricity	11.0	1971	21.3	1984
Metallurgy	4.1	1987	12.2	1980
Machine industry	12.2	1985	26.4	1960
Building material industry	3.0	1987	10.3	1973
Chemistry	11.3	1960	22.5	1972
Light industry	6.2	1985	13.4	1971
Food industry	5.9	1960	15.3	1978

Source: *Statistical Yearbook on Investments, 1987* — Central Statistical Office, Budapest; *Data Collection on Investments, 1950–1971* — Central Statistical Office, Budapest; Grouping by dr. József Papp

**Table 7**

*Change of total energy consumption, 1972–1982*

Countries	Change of energy consumption	Countries	Change of energy consumption
Socialist countries		Developed capitalist countries	
Bulgaria	156	Belgium	97
Czechoslovakia	125	Great-Britain	93
Jugoslavia	184	France	111
Hungary	142	Sweden	89
Poland	140	USA	99
GDR	118	Developing countries	
Romania	172	South-Korea	271
Soviet Union	156	Brasilia	214
China	203	Mexiko	242
		Venezuela	213

\* Equivalent tons of coal; 1972=100%

Source: *International Statistical Yearbook, 1986* — Central Statistical Office, Budapest; Grouping by dr. József Papp

At the same time the reconstruction of coal-mining was launched about two years ago in order to make it profitable (see details in the next chapter). This may result in the closing of fully indebted mines that are working at a loss.

And finally, the one-sided foreign policy, and consequently the economic orientation of Hungary, is changing, the total dependence on the Soviet Union will decrease gradually, and the borders of the country will be opened to the West. But it is really difficult to change the export-import structure of Hungary quickly because of the location of transportation infrastructure, the lack of hard currency, and because of the low capacity of the economy. From next year, Hungary will pay dollars for Soviet crude oil, which will obviously lead to a leap in the price of energy.

Most of these new circumstances will have an advantageous effect on coal-mining: domestic coal will be needed more than ever before!

### PROGRAM OF RESTRUCTURING IN COAL-MINING

By the middle of the 1980s Hungary was dramatically indebted. (Table 8) To obtain other new credits the Hungarian government has had to accept the serious preconditions of the World Bank. The World Bank requires that unprofitable activities should not be financed from World Bank credits, and everything has to be done in order to liquidate uneconomical enterprises. In 1988, the government declared its willingness to restructure coal-mining to make it a profitable branch of economy, as measured by international standards. The World Bank fixed in advance that the acceptable rate of return of new investments would be 12%.

*Table 8*  
*Estimates of Soviet and Eastern European convertible currency debt, 1982–1988*  
*(gross debt; in billions of USD)*

Countries	1982	1983	1984	1985	1986	1987	1988*
Bulgaria	2.9	2.4	2.1	3.5	4.9	6.2	7.6
Czechoslovakia	3.7	3.5	3.1	3.3	3.9	5.1	5.1
GDR	12.6	12.1	11.6	13.6	16.1	19.1	19.9
Hungary	7.7	8.3	8.8	11.8	15.1	17.7	17.3
Poland	25.9	26.3	26.9	29.7	33.5	39.2	38.9
Romania	9.8	8.8	7.2	6.6	6.4	5.7	2.7
Eastern Europe	62.5	61.4	59.7	68.5	79.8	93.0	91.5
Eastern Europe and the Soviet Union	90.9	88.3	85.3	99.9	117.2	133.3	131.5

\*estimated values

Source: COMECON Reports, 6. 1. Autumn, 1989 — Christopher Story, MA and New York

It has to be added that the former government had already elaborated, in 1986, its efforts to close down mines working in deficit. In this way the World Bank strengthened the government, nowadays a new government, in its fight against the strong energy-lobby.

#### *The partly completed government program*

In 1988 and 1989, almost all the managers of the eight mining enterprises were dismissed, three of the mining enterprises were refloated, and state support was decreased drastically (in 1988 6.5 billion forints, in 1989 0.9 billion forints, starting in 1990, there is no state support for coal-mining). In 1989 the producers' price was lifted by 15%.

The government decided in 1986 to have a long-run program elaborated in order to restructure coal-mining. Experts at the Hungarian Financial Institute charged by the Mining Association and the British Mining Consultants Ltd as a tender have participated in elaboration of this program. It is obvious that there are sharp differences in the interests of the World Bank, the government and the mining enterprises, and the debate is not finished yet. The proposals of BMCL on the questions of the price calculation of coal, in shaping the transportation and price contracts, in the examination of the profitability of coal-mining concerning a few cases of mines etc. were all accepted in general by the Hungarian partners.

#### *Conditions of the government*

- Coal-mining must be profitable.
- It must be converted into a self-supporting system (without permanent state support).
- Coal-mining can contract a state loan only without distinctive advantages.
- Starting in 1989 the environmental damage caused by mining must be repaired by the mining enterprises, themselves.
- Coal-mining enterprises must be independent. This condition requires cancelling part of the former loans.
- The price of coal that is sold has to be calculated as the marginal price, the price of coal that is not on the market has to be equivalent to the price of whatever fuel it replaces.

At the same time, the government recognized that the mining enterprises will not be responsible for meeting the demand.

#### *The program of Mining Association for restructuring*

The conflicts of interests are evident: coal-mining is regarded by the government as

one of the problematic branches of the economy, while, at the same time, the coal-mining enterprises are struggling for their survival. The interest of the government is to force the coal-mining enterprises towards profitability without increasing social tensions and without disorganizing the supply of energy. On the other hand, the mining enterprises want to impose conditions or to make compromises in order to keep the majority of coal-mining enterprises alive.

#### *Conditions of the Mining Association*

- Cancelling at least one third of the 40 billion forints debt (as a comparison: in 1987 the total revenue of the coal-mining was 24 billion forints). The other part of the debt has to be converted into capital: the bank would get back the loan in the form of shares. To reach this solution it is necessary to convert these state-owned mining enterprises into share companies.
- It is proposed that the mining companies should share with the state budget the costs for repairing the environmental damage caused by mining.
- The same solution is proposed in case of paying the costs of closing of mines (till 1995 this sum will exceed 1 billion forints).
- But the mining enterprises want to charge the state (budget) or other local organizations with compensating dismissed miners, the payment in kind (coal), and the expense of social allocations given formerly by the mining enterprises.

According to the plans, the restructuring of coal-mining would lead to the decrease by 50–70% of former production, giving enough coal for the operation of the network of electric power stations (125–160 PJ per year, approximately 19–20 million tons). About one third of the mines would be closed till 1995 (parallel with new investments, of course). About 11 thousand miners would be dismissed between 1990 and 1995, 19% of the total staff. (Between 1988 and 1990, 8 thousand miners have already been dismissed.)

The state-owned mining enterprises will be converted into share companies. A case study of the reorganization will be shown later on.

### **ORGANIZATIONAL CHANGES IN THE COAL-MINING ENTERPRISE OF TATABÁNYA (A CASE STUDY)**

The present report is based on observations in North-Western Hungary, at a large brown-coal-mining company (Tatabányai Szénbányák Vállalat, TSZV).

The enterprise was to be reorganized into a holding company; the headquarters were to deal with long-term development, foreign trade, management of property, organization of associations, control and supervision and supplying certain central services. Production

was to be organized in self-accounting divisions. By 1990, the employment of 3,400 people was planned in the accounting divisions, and 5,800 at the whole enterprise. (The reality exceeded the plan: the number of employees has decreased more quickly and drastically: by 50%.)

In the actual, transitional phase, already some 2,000 people are employed by the different share-holding companies having English, German and Soviet capital interests and a wide scope of diversification.

At the moment, the TSZV itself seems to be able to avoid liquidation this way. Because its total production might become profitable, it might save about 50–60% of the previous jobs. But the future of the whole domestic coal production is still uncertain.

#### *Labour-force restructuring*

Staff number has been reduced gradually. In the second half of 1989, 600 people were dismissed, mostly by retirement and the offer of early retirement. Miners dismissed this year were able to find employment in the neighbouring mines, so far. Nevertheless, it seems to be almost certain that these mines will soon get into a similar situation as the TSZV. And later no jobs will be available for the miners in this area.

#### *Decreasing social subsidies*

The TSZV gave all sorts of different subsidies in kind to its employees. The institutions of these social services (the TSZV has or had its own first-class football team, several institutions for sports, a theatre, a school, several parks, a restaurant, shops, an ambulatory clinic, buses for transporting workers, a housing estate, even a church) are part of the property of the mining enterprise. The maintenance and operation of these institutions put immense burden on the TSZV. The Enterprise is now selling off a part of these institutions and tries to make the operation of the rest profitable (e.g. the unused part of the holiday home will be operated as a hotel).

This solution is understandably reasonable from the point of view of TSZV but it is doubtful whether the local council, which has limited resources as well, will be able to take these activities over. Finally, the miners, the employees of TSZV, will be deprived of these services.

#### *Finally, is there any hope for survival of TSZV in Tatabánya?*

The Enterprise could fulfil the conditions of the agreement contracted with a social committee of the Ministry of Finance concerning economic rehabilitation:

- several mines working with deficit were closed in 1989;
- coal production has decreased;



- number of employees has decreased by 50%;
- the organizational modernization has been implemented.

Consequently, it can be said that the TSZV became profitable (the production costs are covered by the income). But two serious problems remained unsolved, keeping the future of the Enterprise in a state of uncertainty. These problems are general in case of other enterprises, as well.

- (1) In spite of the present profitability of this enterprise, the total income does not cover the paying off of the accumulated debt and the new sources of investment. This fact brings into question the existence of the enterprise both in the short and long run.
- (2) The other problem comes from the crisis of the national economy. Not only the enterprises with deficit but more and more profitable enterprises are getting into a hopeless situation because of the insolvency of subcontractors. Nowadays the mutual indebtedness reaches about 25–30% of the Hungarian total national income. This fact is going to paralyze the whole economy.

Consequently, my opinion is that the future of mining enterprises after restructuring depends on the economic policy of the government in the same way as before.

### THE TREATMENT OF DECLINING MINING AREAS

Mining areas in crisis are regionally concentrated. These kinds of regions have sharp boundaries yet, at the same time, there are not regional programs attempting to solve or at least diminishing the crisis. What is the reason for this fact?

It can be said that regional policy, regional planning was not successful in Hungary. Villages, where about half of the population live, were almost omitted in regional planning programs. The basic services, the infrastructure have been unnecessarily concentrated causing the slow death of the small but potentially viable settlements. The new, so-called socialist towns built during the last forty years were not successful establishments either: most of them are characterized by one-sided industry, distorted social structure and low cultural level. Nevertheless, it is true that the social-economic differences among the big regions have diminished, and disregarding the last one to two years, employment was full everywhere in the country. But these positive results were due to the economic prosperity of the 1960s and early 1970s much rather than to a proposeful regional planning policy.

The strongly centralized redistributinal system has had an essential effect on regional policy. The aversion now to this system is rightful and understandable. Because it did not pay any attention to local authonomy, local movement from the ground up, all incomes were concentrated and distributed again according to central decisions.

It is obvious, too, that we are living in a transitional period when the social system is

being changed: the new government has been established just now, together with the new ministries, the election of the local authorities will be held in autumn. A new power structure is forming in Hungary. But the economy of the country is in deep and unchanged crisis. In this way it is partly understandable that certain questions such as the treatment of regional conflicts are pushed into the background.

In my opinion this is not only a matter of pushing regional questions. Instead, they are completely neglected. The new government has forgotten regional problems, dissolved the official authorities of regional planning (formerly in the framework of the Building and Town Planning Ministry, later in Ministry of Transport and Communication, and Ministry of Home Affairs), and now there is no new organization dealing with regional planning.

Nowadays, the local solution of increasing tension is not possible. The territorial system of administration is under debate, and it may change considerably. It is clear that the administrative officials pay more attention to their own carriers than to the local problems. In the counties with declining mining areas the general situation is particularly desperate. During the last four decades these counties were specially favoured. In this way the local management forgot how to accommodate to the changing situation, how to initiate and work independently. And now, they are not able to move, to do anything regarding the crisis of their counties.

It is to be feared that rising regional tensions and possible explosion, not only in the mining areas, will catch the new government and the local administration unprepared. Then they will be forced to use "fire-fighting" instead of a long run mature plan.

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