

LOCAL DEVELOPMENT STRATEGIES: ENCOURAGEMENT OR RE-ACQUIREMENT?

CSILLA KERESZTES NAGY

It is, indeed, a great pleasure to have the opportunity of addressing an international seminar having such a great tradition.

Before I proceed to present the details of my research, I would like to emphasize that this research was carried out as part of a project dealing with the conditions in Bács-Kiskun county, so the results obtained may not be characteristic of the whole country, though they may show some general features.

This is simply an attempt to reveal the connection between the development of a settlement and the financial or economic conditions provided by, or via, its local council or government. The strongest urge to do this was the fact that, according to the new law on self-governments in Hungary, there is to be settlement economy, which, for example, cannot be said about the past few decades, and this local economy will rely on first of all the so-called "own resources" of settlements. These resources include, of course, natural resources as well as labour and human capital and financial resources; not only local or redistributed taxes, fees and subsidies but entrepreneurial profits as well.

The problem is that we have very little conceptual basis for understanding what the real keys are to economic success on a settlement level because the paradigms and methodology of regional economics and the input-output analysis do not provide much practical or detailed guidance for local leaders and local communities about how to spend their time and money to improve their local economy.

That is why it was decided to search for some empirical evidence which might show how the economic position of the different types of settlements has changed within the reforms of the redistribution system for the tenth consecutive year.

The last decade, the 1980s, is really very interesting from this point of view. The so-called Concept for National Settlement Network Development introduced in 1971, then criticized and abandoned recently, was only an ideology which aimed to concentrate all the functions and financial supply in the big cities and county seats. However, in the early 1980s, the administration modified the policy of financial redistribution by increasing the share of villages and small towns. But, at that time, restrictions imposed by the central budget could already be felt more than the impact of this relative advantage on the infrastructural development of the underdeveloped areas. In the middle of the 1980s there was a more comprehensive reform in the governing system, resulting in a more normative

ruling mechanism, still the over-centralized, separated nature of council economy and the submerged role of infrastructural development did not change.

Nowadays there is a new draft on the agenda. It can hardly be called a concept: at best it is only an idea of how to relieve the central budget by charging local governments not only with obligatory tasks but making them raise money as well.

There is one positive feature of this idea namely that, unlike the traditional type of planning, the subsidies coming from the central budget do not follow the hierarchy of settlements formed under the aegis of the Concept for National Settlement Network Development. Theoretically, every settlement gets the same proportion of money corresponding to the number of inhabitants, the number of dependency population and some special functions like hospitals, secondary schools etc. This so-called normative system has been taking place for two years now, with the active assistance of the intermediate level of administration: the county council.

These past two years, called the years of adaptation, have already proved that a lot of corrections must be made because the county council had to intervene in several cases simply to prevent some local councils from going bankrupt. As these corrections do not seem to have taken place yet, it is quite doubtful how most of the settlements will manage to improve or at least maintain their employment and income.

To cut a long story short, our empirical studies highlighted some very interesting phenomena that can prove, on the one hand, that the existing—and not really modified—re-financing system has some inadequate features, and, on the other hand, that there are very great differences among settlements as far as their ability for survival is concerned.

In the course of the research we made several attempts and calculations. In the end, the factor-analysis taking into account the specific per capita data on council budget resources and the development expenses provided the most information. We got three complex indices which can be described as the following:

(1) The first and main factor emphasizes the measure of the so-called normative share in the councils' budget. This new hierarchy of settlements clearly shown by the analysis seemed to be much the same as the former one according to the Concept for National Settlement Network Development. This fact suggests that despite the reforms, stressing the equal rights and equal chances for each of the settlements, there is a semi-official hierarchy of settlements left, referring to the key settlements' responsibility for supplying. That is why we called this factor "the hierarchy index".

The other striking fact is that a stochastic connection can be observed between the measure of per capita income tax and the rank of the settlements in this hierarchy. The income tax could have played a decisive role in the development of settlements but I would like to tell you a few things about this topic later on.

(2) The second factor showed a very close connection between the specific institutional equipment of a settlement and the per capita subsidies given by broader units of governments. Of course, this is not very surprising if we take into account the fact that the financing of a settlement's—for example a small town's—institutional and infrastructural network system up to the past few years had been planned according to a "basis

aspect". It means that an expense level that had already been accepted was considered as a basis of further calculations. In other words, this money could be taken for granted for a relatively well-equipped settlement like a small town.

Here another interesting observation was made: big villages which were later established as towns showed very similar features to the small towns at that time from this point of view, so they were definitely planned to be small towns or, at least, got a little more help from the broader administration than the others to reach this status. So we called this second factor "the index of small town institutional planning". Working with per capita indices, the county seat, Kecskemét, could not reach outstanding positions in these calculations, for the first wave of financial resource concentration aiming at the county centres had already been over before the period our research covers, and, having proportional indicators, its absolute advantage cannot be observed in this way but we were convinced that this absolute advantage is not the very thing which should be examined nowadays.

(3) The third factor must be the most interesting one; we called it "vitality index". Those settlements which happened to reach outstanding positions according to this calculation could generate virtual infrastructural development in spite of the fact that they were not in the mainstream of redistribution, so they had to use and get on with their own resource base in the community. It is, of course, very difficult to find the keys and activities that gave rise to success in these settlements. But there are a few elements and conditions in common which can be described:

- (a) Most of them are rural communities dependent on agrarian activities. They seemed to have been able to react to the changing macro-economic circumstances and to be entrepreneurial about their own future development;
- (b) There can and could be found enough personal or other entrepreneurial financial resources, and willingness to invest in local private initiatives and local infrastructure;
- (c) These communities have or had a flexible leadership that can or could, on the one hand, assist and encourage local enterprises, and, on the other hand, gain money from the redistribution system both in formal and informal ways.

The most surprising fact is that a lot of these entrepreneurial communities do not belong to the best tax payers as far as the per capita personal income tax payments are concerned, though the population of these settlements seem to be rather wealthy. Anyway, it must be added that the income tax is preferential to some extent regarding agricultural activities. Can this be the only explanation to this phenomenon? However, according to the existing rules, there is not any direct connection between the taxation capability of a settlement and its ability to develop.

Although there are some kinds of new local taxes planned, the two main tax resources—the personal income tax and the value added tax—are collected directly by the central budget and the community can at best re-acquire some of it one or two years later, as

the amount is in its yearly budget but the central administration does not calculate the more than 30% inflation which reduces this sum during that time.

If a community cannot or does not pay enough per capita personal income tax, its local government gets extra subsidies. To give you a really astonishing example: maybe the two wealthiest villages in our country, Kecel and Soltvadkert received the highest extra subsidy last year for this reason.

Two questions can be raised about that:

1. How can a community be made to be willing to pay taxes if they cannot feel or see any practical and virtual advantage in it?

We have to take into account that the Hungarian taxation system is very progressive and its rates are very high. Even the lowest paid active earner has to pay one third of his income as tax, and over a 300,000 gross yearly income, which should not be considered high nowadays, the rate is 40 or 50%.

2. How can a local leadership be made to be interested in recovering this big sum of money from the members of the community?

To make the situation clear, in these communities about two thirds of the average income come from the so-called second or third economy. That is why it is not registered, so it can be only estimated. Our empirical studies proved that except the bottomless central budget, neither the individuals nor the community or its leadership are really interested in cashing in this horrible sum of money. That is the most inadequate element of the existing ruling mechanism.

SUMMARY

Having been treated and governed in such different ways, the settlements in Bács-Kiskun county—and I dare say in the whole country—will not react in the same way to the sweeping changes going on in the governing system of their economy. Some of the small, never or hardly subsidized communities have already shown more readiness, willingness and capacity to respond than, for example, the better equipped and subsidized small towns. The new legal rules can, of course, impede or enhance the progress of these small vital communities—for example, the new land law—but at least they are not only people settled together; they have interests in common and they want to compare themselves to other similar communities. That is why they are willing to tax themselves to invest in local infrastructure even if they are unwilling to pay any tax to the central government, which can be understandable on several grounds.

A worse situation can be predicted for the small towns and other key settlements where the so far unconditionally subsidized institutional network will probably lose granted resources. In this case they will have to create encouraging circumstances for initiative,

instead of re-acquiring money taxed away by the redistribution system. Still, there must be some kind of redistribution system left to help backward areas and crisis phenomena.

But everyone has to see that they will not be able to do this without two cornerstones which do not really depend on the settlements and communities themselves:

- the first one is stability;
- and the second one is the expectation of fair rules of the game.

Without these we can be afraid of the takeover of the “good old” bargain mechanism, the very thing we wanted to eliminate.