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**Regional and Cohesion
Policy in Hungary**

by

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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 recognising the fact that local authorities are unlimited 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 local government 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 such a functions as the local governments in the settlements cannot be 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 periferal 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

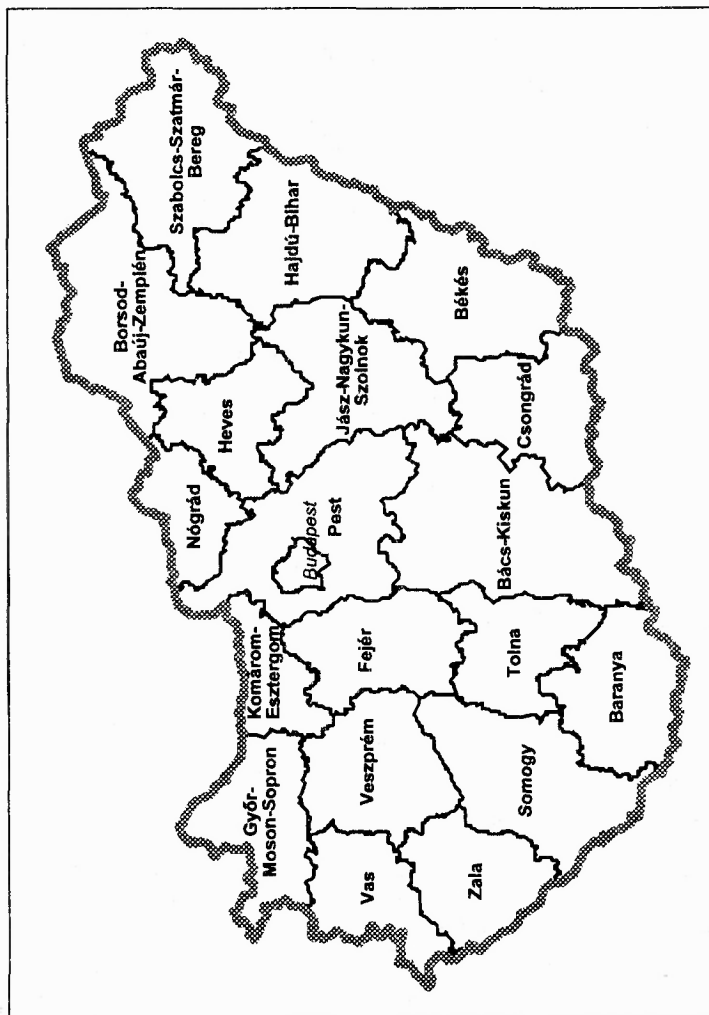
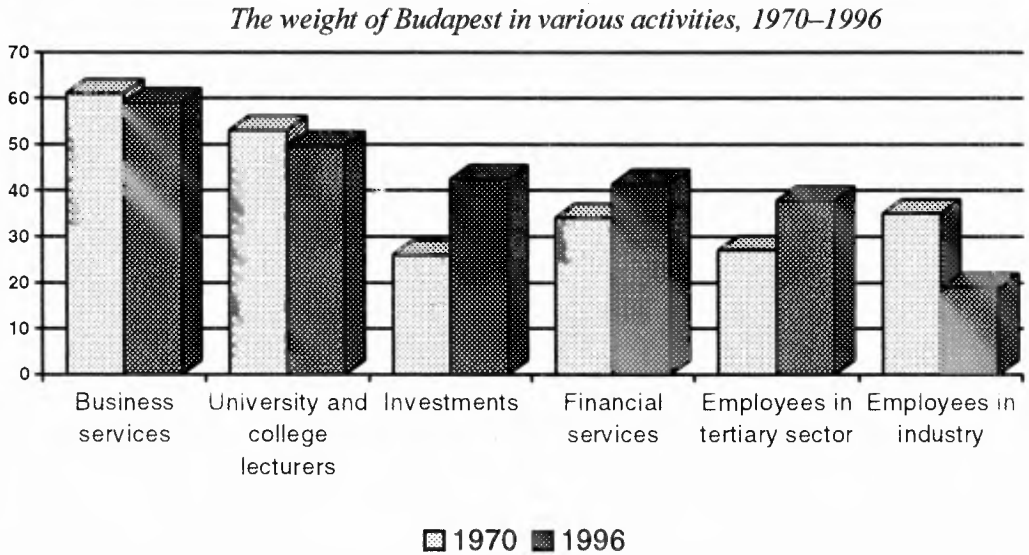
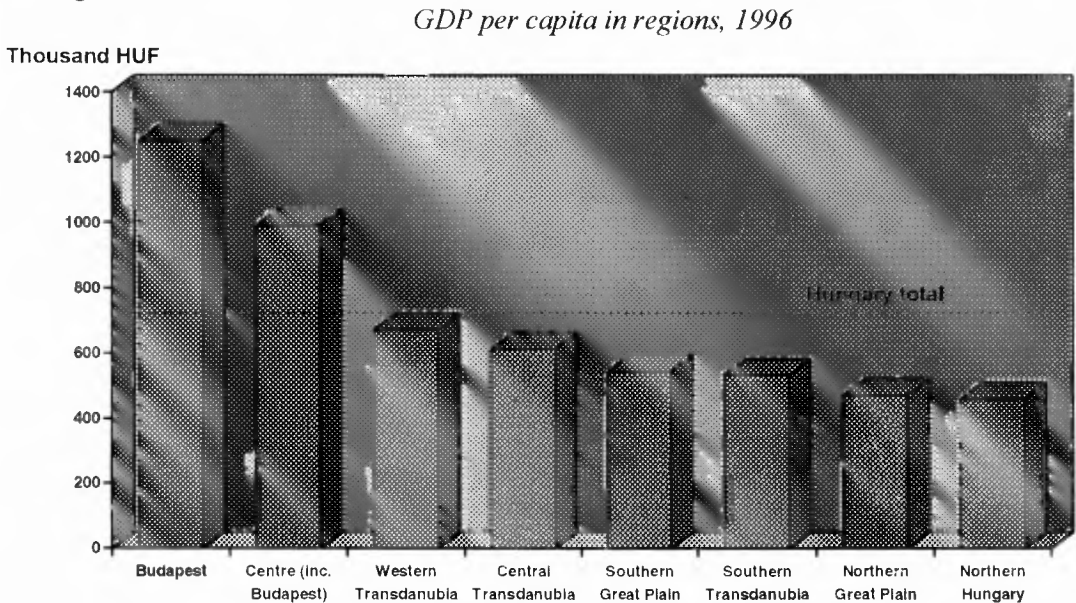


Figure 2



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

Figure 3



Source: Designed by the author on the basis of Regional Statistical Yearbook. 1996. p. 25.

Table I
 Regional differences in some market economy factors in Hungary, 1996
 (data as a percentage of the national average)

Counties	Unemployment rate	GDP per capita	Industrial export rate	FDI	Employees in market services
<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.

2 Changing regional policy

2.1 Regional policy trials in early 90s

2.1.1 Rationale for the modification of Hungarian regional policy

The introduction of a market economy in Hungary, and the transformation of the social administration, has fundamentally altered the aims and the institutional and regulatory system of regional policy. 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 tax system relating to the labour force and the abolition of agricultural credit preferences has 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 the *institutional system of social 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 new government has not created 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.

The establishment of the *Regional Development Fund* in 1991 was a positive development. The sources of the Fund, funding principles and the designation of assisted areas and sectors was 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.

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 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.

2.1.2 Strategic objectives and priorities of regional policy

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 did decrease 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 Decree 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 pre-conditions 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 coun-

ties". 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.

With the implementation of political and economic reforms, the environment for regional policy changed markedly. 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. Nevertheless, a clearly specified concept or strategy for regional policy was not formulated during this period.

The legislation regarding regional policy was passed in 1993, providing a new definition of the main tasks and means of regional policy. The principal tasks as laid out in the decree included regional crisis management and the economic transformation of depressed and backward regions; the implementation of selective infrastructure projects, focusing on backward areas; and the establishment of the basis for internal and international co-ordination. Although no specific guidance was given on an appropriate institutional system, the decree stipulated that institutions should be promoted that are in harmony with the EU system and internal conditions.

The decree also laid down the main supporting tasks of the Regional Development Fund, including investment aimed at job-creation and maintenance, regional and county development programmes, infrastructure investment and business services support.

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 nature of the coalition which formed the agenda of the new Government following the recent (May 1994) elections has determined how, and whether, the Law on Regional Policy could be placed on the agenda and what its content could be. It was also determined – to some extent – by the new Government's strategy for economic policy on changes to the state budget, and on the future of local government. The programmes of the dominant political parties contained certain favourable elements from the point of view of regional policy development as they were in agreement on several important issues:

- development disparities between regions should be reduced;

- the reduction of regional disparities should be supported by state and budgetary means, and the resources in the Regional Development Fund should be increased;
- the number of state funds should be reduced, and co-operation between them should be reinforced;
- the role of the counties, and principally their regional development functions, should be reinforced; and
- a territorial-regional system for the reconciliation of interests and future co-operation of the individual institutions of regional development should be established

2.1.3 The relationship between regional and sectoral policies

In the past, the central control of regional development was divided along sectoral lines, and sectoral priorities were given precedence over regional goals. Even following economic and political liberalisation, regional policy remained a relatively weak policy area, and, together with the lack of strong integrative action by the Ministry of Environment and Regional Policy, it tended to become subordinated to the sectoral policies of other ministries.

The position of the Ministry of Environment and Regional Policy was relatively weak within the Government. The policy area had no established tradition in the Hungarian Government and did not enjoy very high prestige. The regional development aspects of the work of the Ministry, which also included responsibility for environmental and construction affairs, were managed by two small departments under the supervision of a deputy state secretary. The debate over the authority of regional development further weakened the position the MERP. In addition, as the Ministry of the Interior retained authority for settlement development, and other areas related directly to regional development, there is often a conflict of competence. This relatively weak position, combined with the powerful sectoral interests against the Ministry, had greatly restricted the ability of the Ministry to fulfill tasks of co-ordination and to provide a systematic approach to regional development.

The political reform and transition into market economy also brought about other organisational changes. *First*, as part of the new constitutional model, the role of Parliament was reinforced. Regarding regional development, the Parliament became responsible (in principle) for regulation, financial distribution and the supervision of Government ministries. In practice, Parliament's role was restricted to approving the distribution of finance since its regulatory role had yet to be legally ratified.

Second, the system of was reformed. The main powers below central Government level now reside with the local authorities which operate as autonomous ad-

ministrative units. There are more than 3,000 local authorities in total, and there is no legislation to force any kind of association. Associations between municipal governments tend to be formed on an informal basis without much decision-making authority or financial resources.

The strengthening of the level had been paralleled by a significant weakening of the powers of the 19 county governments. In danger of being abolished during the preparation of the LXV Law on Local Government, the counties had been left as subsidiary administrative units; they fulfilled tasks which the local authorities were not able, or were unwilling, to perform. Although the counties legally had a role in regional development (e.g. relating to land use and regional development), they received little support from either central or local governments. Indeed, the central Government has been overtly hostile to the counties especially in the first years of the parliament, as evidenced by the process of assigning competence.

The reform of the local governments system had had wider ramifications. The lack of an effective regional administration had encouraged sectoral ministries to establish deconcentrated administrative offices, of which there were about 40 different types. There was little if any co-ordination between these offices, and some operate autonomously and regard other regional organisations almost as rivals, reflecting power relationships at central level.

Third, a range of non-governmental organisations had evolved to fill the "missing level" in regional development. These organisations included regional development councils, development agencies, foundations and micro-regional associations. Some of these had been set up by Government departments (e.g. the regional development boards to administer regional development programmes in the counties). Others had evolved with the support of international organisations. For example, under the aegis of the Hungarian Enterprise Foundation, a local enterprise network existed in most counties with some 70 sub-offices. Sponsored with international aid, and with an initial capital of HUF 4.2 billion these offices undertook small and medium-sized enterprise promotion such as business start-up support.

The strategic decisions regarding the role of regional policy were closely bound up with the power play between politicians and political institutions: at *national* level, notably between Parliament and the Government and between key ministries within the Government: and at *regional local* levels, among different organisations claiming various degrees of regional primacy and local autonomy. The inability or unwillingness to cooperate at all levels was a natural consequence of the lack of major national institution for regional policy which would have provided legal regulation for the co-ordination and programming functions of a system of regional development organisations, in addition to the absence of an overall regional policy strategy.

A range of Government departments had a claim to, or responsibility for, regional development. They included:

- the Ministry of Environment and Regional Policy (co-ordination of regional development, environmental and landscape protection),
- the Ministry of the Interior (preparation and management of settlement and regional programmes),
- the Ministry of Finance (creation of a system of instruments and regulations for the regions),
- the Ministry of Industry and Trade (preparation and management of regional programmes for the labour force and tourism, as well as regional crisis management programmes),
- the Ministry of Labour (employment policy, vocational training and (potentially) co-ordination with local development activities),
- the Ministry of Transport, Telecommunications and Water Management (formulation of concepts for the location of national and regional infrastructure), and
- the Ministry of Public Welfare (health and social matters, including participation in the development of Government policies on living standards across the country).

Not surprisingly almost all ministries were involved to some degree in regional development, and most had separate departments which specialised in this area. However, there was inadequate regulation of competence and co-ordination. For example, there were often "missing links" between sectoral ministries, especially between the Ministries of Industry, Labour and Public Welfare. There were also conflicts of interest and competence rendering co-ordination difficult (e.g. between the Ministries of the Interior and Finance). Committees designed to promote inter-ministerial consultation had either not been established or fail to function effectively. Once again, the problem of the lack of strategic overview seriously compounded the ministerial and Government confusion and conflict in this area.

Individual ministries, depending on the nature of the task, were put in charge of particular (county) development programmes, but it is not always clear which ministry was responsible for the co-ordination of the programme for the Government. As a result, the lever of influence of a ministry on a certain programme was often determined more by the eagerness of individuals or ministries rather than by regulation within an overall strategy.

2.1.4 The 1991 Government Decree on state grants for regional development

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.

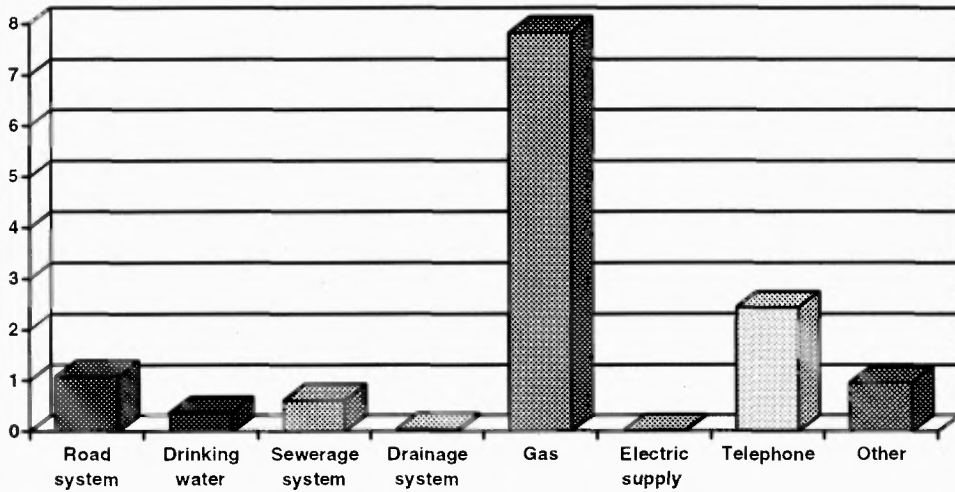
There was a delay in the drafting and approval of this Government Decree, which resulted in the submission of a relatively small number of tenders for projects suitable for an immediate start. As a result, slow progress was made in the utilisation of the HUF 1.5 billion allocated for projects. Exploiting 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 505 million were allocated in 1991, HUF 734 million in 1992 and HUF 167 million in 1993. 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 million from the state budget. The greater part of the subsidies reserved for future projects was, however, spent in advance due to the number of tenders and the decision mechanisms of the Government's Inter-Departmental Committee. No steps have been made to remedy this situation.

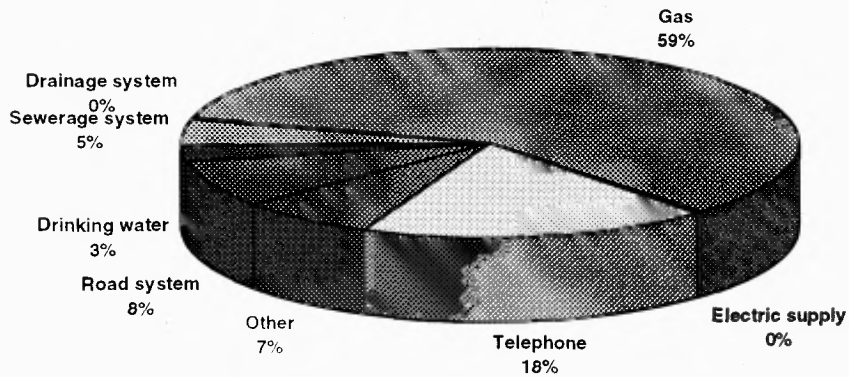
Figure 4

*Sectoral structure of the infrastructural expenditures
of the Regional Development Fund, 1991–1994*

a) values in billion HUF



b) distribution in percentage

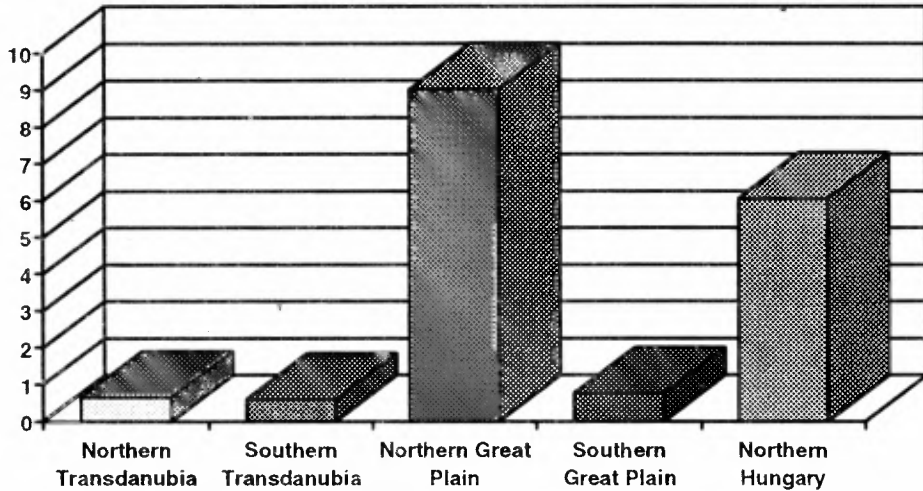


Source: Ministry of Environment and Regional Policy. Designed by the author.

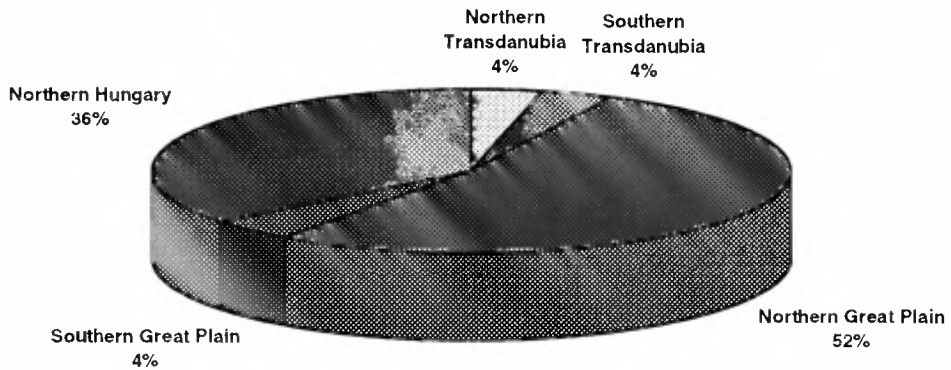
Figure 5

*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.

2.1.5 Legal regulation between 1992 and 1994

In 1992, the Regional Development Fund was reorganised, following a further delay in the introduction of the new legal regulation (Government Decree. 97/1992) in the summer of 1992. This delay was due partly to the increasing number of parties participating in co-ordination, and also to the strict adherence of the Ministry of Environment and Regional Policy to the rules of administration and democracy. As sectoral departments discovered the potential of the state subsidy system, they tried to allocate resources for the realisation of their own sectoral targets resulting, for example, in the higher priorities of agricultural programmes. Although land-oriented subsidies were not in harmony with the whole system, they became one of its structural elements and absorbed a large proportion of available financial resources.

The Hungarian Parliament passed the LXXXIII Law on Separate State Funds, 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 loop-holes), 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.

The LXXXIII 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.

Ten income sources are mentioned in the Law, the most important ones being: state subsidies from the central budget; international aid and loans; and, income 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 1990 census data were still unpublished at the start of 1992, which hindered the border designation of the backward areas. A new category of high state subsidised settlements was introduced. Higher state subsidies became available to settlements in backward areas and in employment areas with an unemployment rate at least 2.5 times higher than the national average. Subsequently, these were superseded by new criteria under the 1993 Resolution..

The *Parliament* passed a new *Resolution on regional development* at the end of 1993. The 84/1993 Parliamentary Resolution 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 Decree 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,
- the provision of assistance for complex programmes for regional economic development,
 - the support of development tasks of county development programmes that were approved in Government Decrees,
 - the provision of business services and the construction of incubator units and innovation business parks,
 - the construction of regional transport, telecommunication and energy systems,
 - making investments for the protection of natural beauty, in protected agricultural areas,
 - the development of human infrastructure connected with the creation of new jobs, and
 - the 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 higher than 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.

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 defined three categories of state subsidies to be financed from the Regional Development Fund as follows:

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

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^o 168.

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 is to be consulted by the regional policy committee where available; and,
- 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-Departmental Council 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*).

2.1.6 The territorial structure of Fund utilisation

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 was 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.

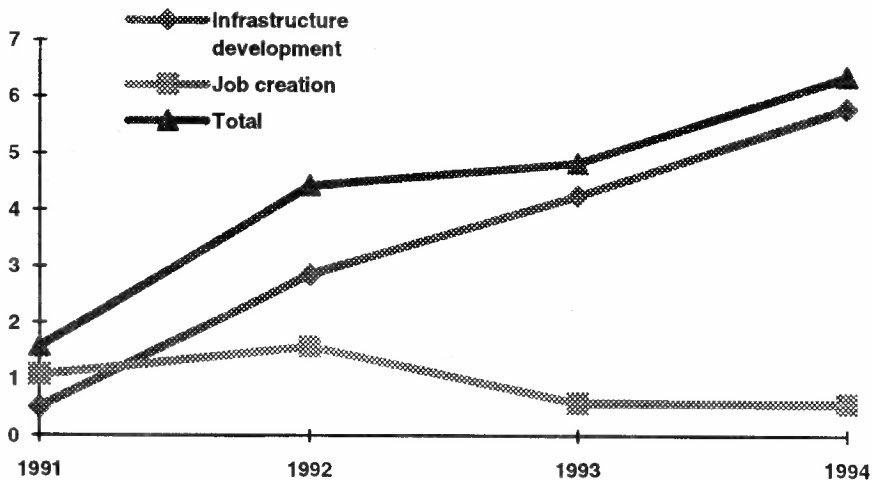
In 1991–1992, the Regional Development Fund granted support for the creation of 10,500 new jobs, 53 percent of which were created in Borsod and Szabolcs counties (61.2 percent of awards were used for this purpose). The cost-per-job of subsidies was between HUF 114,000 and HUF 537,000.

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 a very large disparities (*Figure 8*).

Figure 6

*Regional Development Fund expenditures,
1991–1994, billion HUF*



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

2.2 Beginning of a new era of regional policy: legislation of 1996

2.2.1 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 Physical Planning* on 19 March 1996.

The objectives of the Law are:

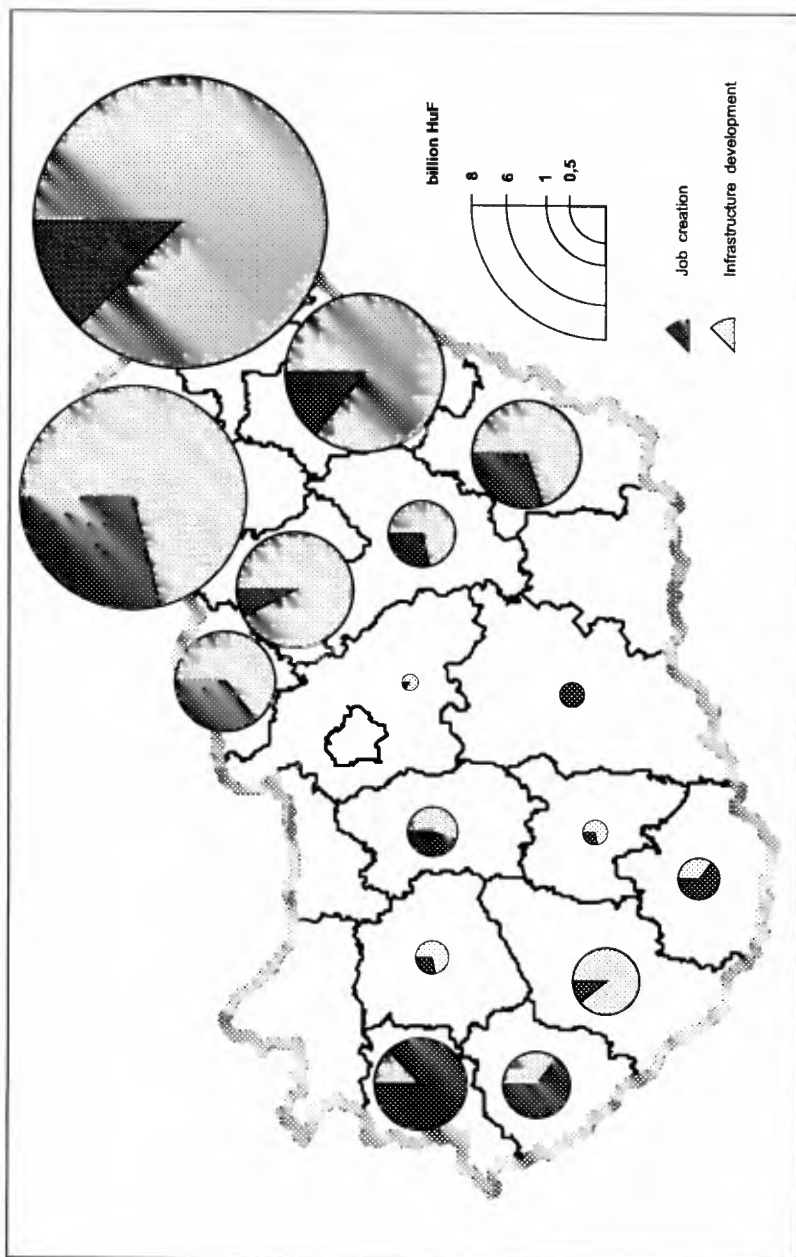
- to assist the development of a market economy in every region of the country, to create the necessary conditions for sustained growth, to improve economic conditions and the quality of life through co-ordination between social, environmental and economic interests,
- to create the conditions for self-sustaining development,
- to reduce adverse differences – in terms of living conditions, economic, cultural and infrastructural conditions – between the capital city 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

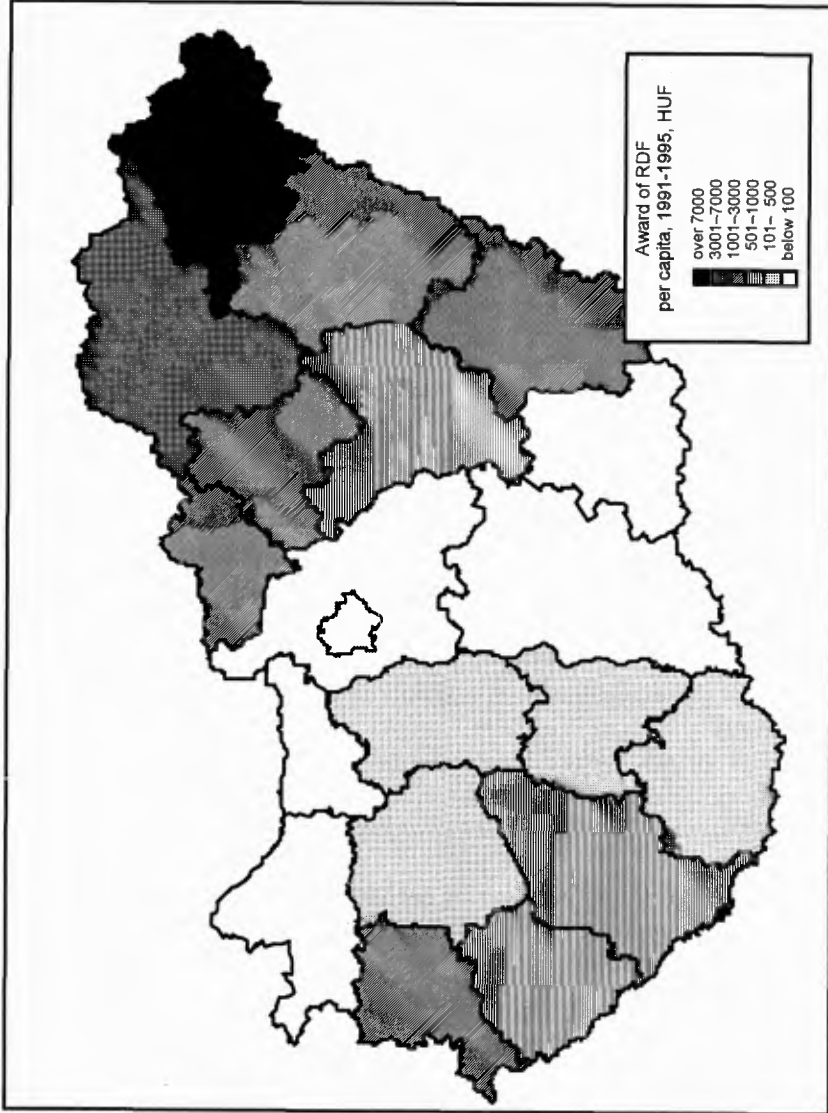
Distribution of the RDF by counties, 1991–1995



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 as follows:

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 right located within the county,
- representative of the minister,
- representatives of the regional chambers,
- representatives of the development associations of local governments within

- the county (one representative per each statistical district,* 5 to 10 people depending on the size of the county),
- a representative of the employers' side and the employees' side respectively of the county employment council.

In the institutional system the *county general assemblies* has 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 instrumental powerlessness it is the “black horse” of the new regional policy.

2.2.2 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

* 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' attraction zone. All towns are centres (or co-centres) of attraction, however there are also villages with central role.

way was also hindered by the fact that the notions used in state 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 in-

evitable, 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; Hrubí, 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. We can clearly say that, in spite of the political compromises, we possess a legal document that can achieve the appreciation of the European professional public opinion, because the Law:

- 1) With its objectives is 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. If we look at its basic features, it is a lot 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 can make us optimistic, 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 de-concentrated? 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 the 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

2.2.3 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 a difference.

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 the 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 the 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 the regional governments are strongly limited;

8) The aim and object 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 be expected in Hungary, as well.

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, we have to take unfavourable factors into consideration, as well. 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. Even if their management becomes a responsibility of the Ministry of Environment and Regional Policy, it will take quite an effort and a series of political debates and deals until the individual settlements voluntarily give their target grants, utilised with definitely low efficiency so far, to common regional development objectives.

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 organically 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 and
- 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.

2.2.4 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 redistributional 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 occur 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.

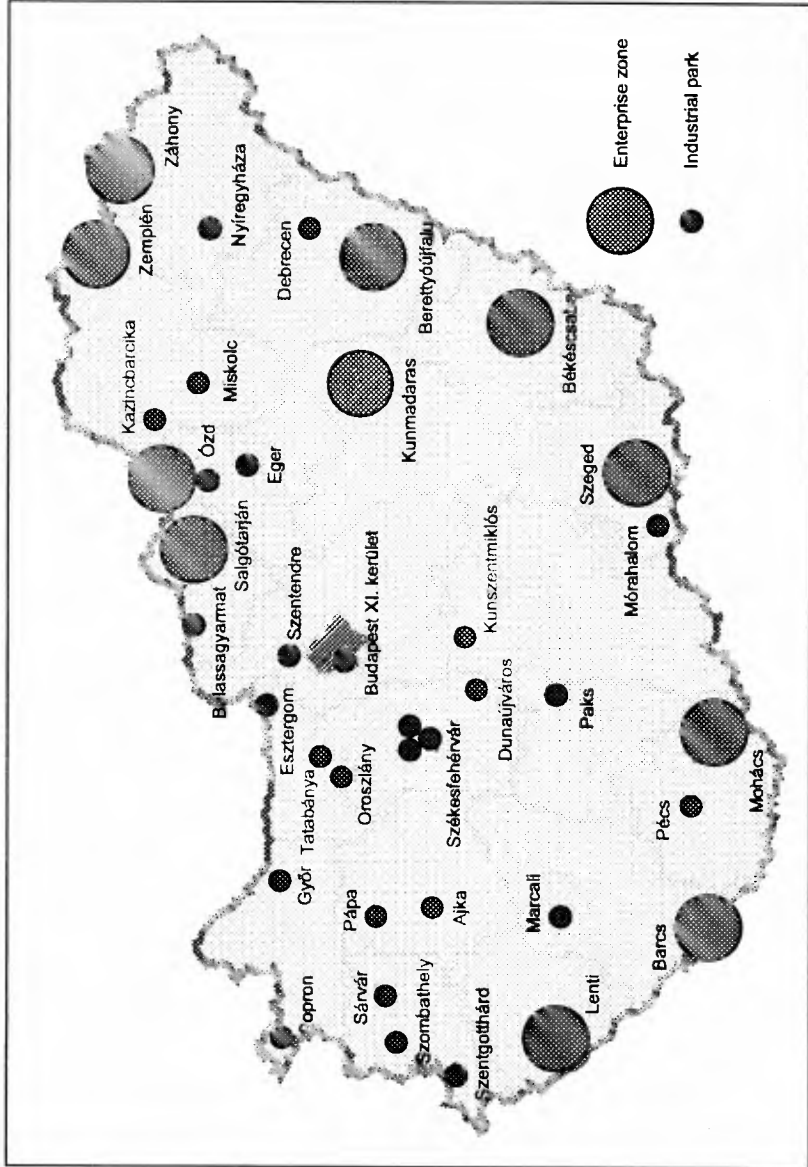
The Hungarian State has huge debts, high payments and budgetary deficits, which are impossible to maintain in the longer term, and high inflation. It is, therefore, unavoidable that the focus and main priorities of regional development will be different in the short term and the long term. They are not, 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);
- to formulate an adequate regional mobilisation policy based on internal development potentials and aimed at the reduction of regional social, demographical and ethnic segregation.

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.

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.

2.3 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 niversal banking should also 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 regional development support specified in the budget line allocated to the Ministry of Environment and Regional Policy from the central budget (tasks taken over from the *Regional Development Fund*) is of great importance, which 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, method of implementation and conditions of regional development programmes, and the preparation of programmes encouraging the development of local societies,
- 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*. The maximum amount of financial support given to job-creating investments may not exceed HUF 1 million per employee. The amount of interest subsidy given may be 50 percent of the interest on the loan if the project is not receiving any other forms of state assistance. If the project is receiving another forms of state assistance, then the maximum amount of interest subsidy can be 30 percent of the interest on the loan. The projected level of employment must be reached within 6 months of the completion of the project and the jobs created with the financial support received must be maintained for at least 5 years.

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
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

1	2	3	4	5	6
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
	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
	HUF million			
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 Physical 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 demo-

- graphic, 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; Figures 10–11*).

Table 6

Eligible areas in Hungary, 1998

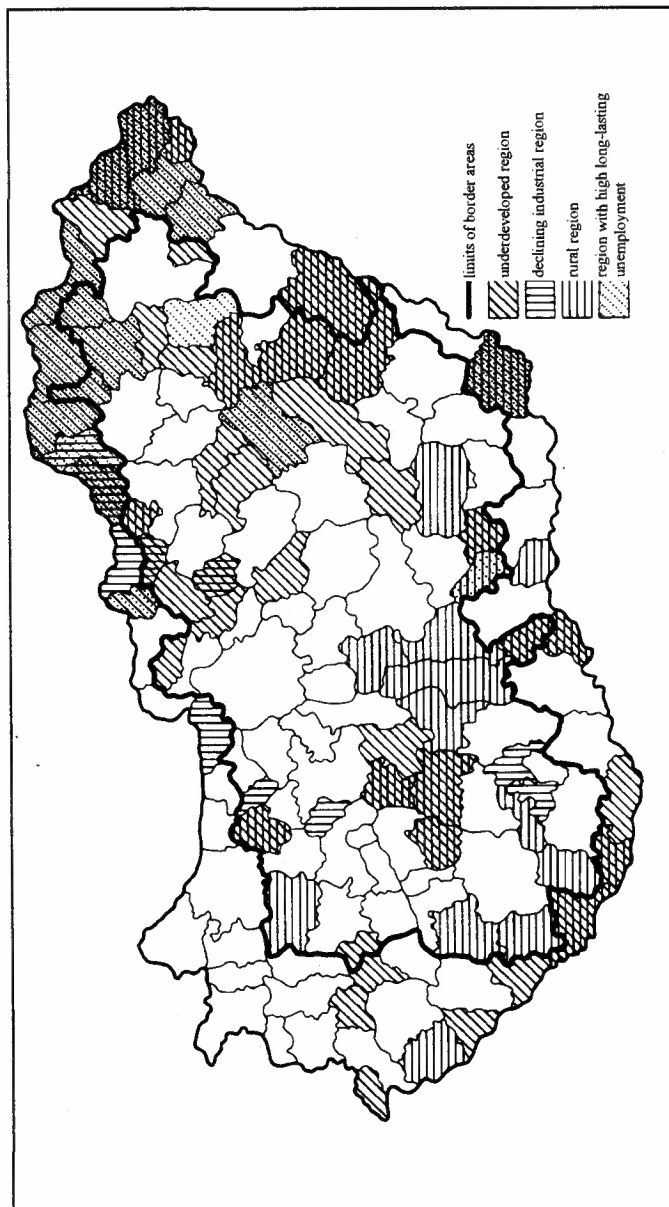
Type of area	Number of areas	Number of eligible settlements	Population, '000
1 Underdeveloped	83	1,650	3,017
2 Declining industrial	6	94	284
3 Rural	38	849	1,320
4 Hit by high level of unemployment	41	911	1,742
Eligible areas*	88	1,740	3,408

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

Source: Central Statistical Office.

Figure 10

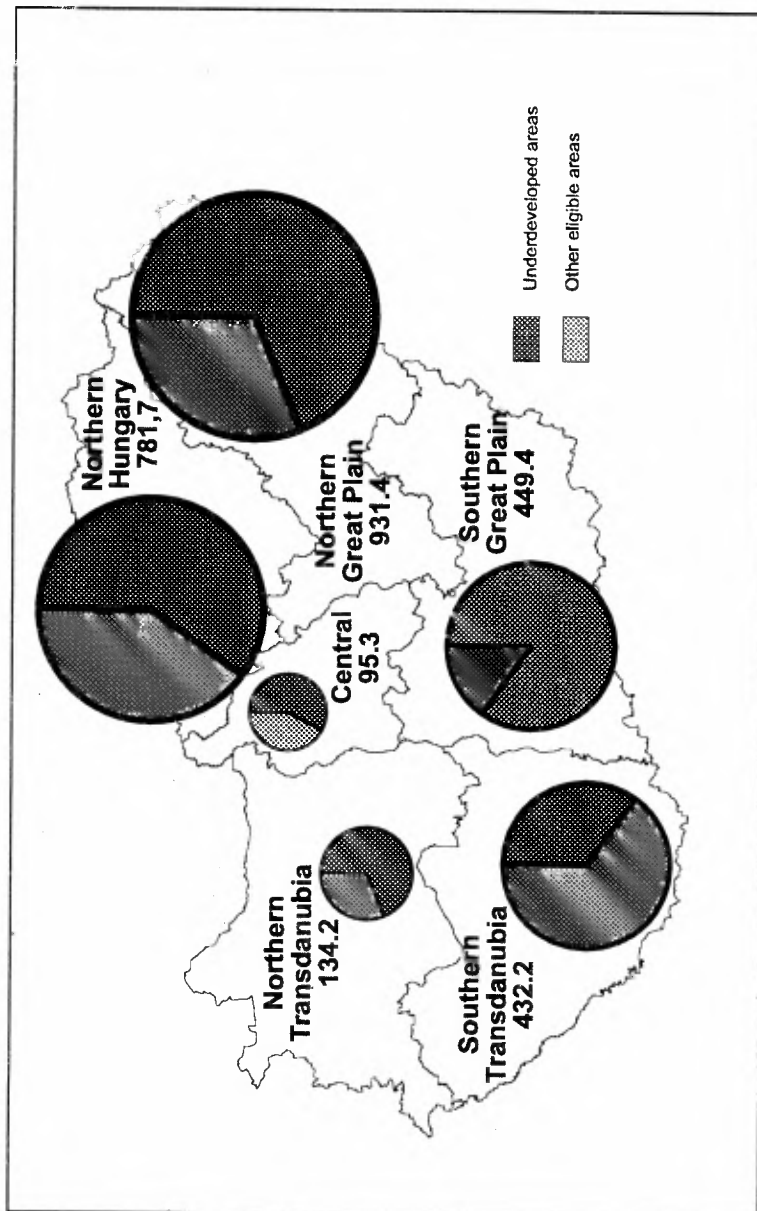
Eligible areas in Hungary, 1996



Source: Governmental Decree 219/1996. Designed by the author.

Figure 11

Population of eligible areas by regions, 1996, '000



Source: Government Decree 219/1996. Designed by the author.

3 EU-compatibility of the Hungarian regional policy

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 Committee's report on the country, as is the fact that most elements of the Hungarian regional policy is compatible with the structural policy of the EU. The goals of the Act XXI of 1996 on Regional Development and Physical 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.

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.”

3.1 Basic principles

3.1.1 Decentralisation and partnership

Territorial *decentralisation* in Hungary is realised on several levels. Yet these territorial levels do not have the same institutions and scope of authority. There is no clear division of tasks among these levels, neither is it properly defined on the legal level in what cases and in what territorial and functional magnitude direct central assistance is justified to interfere with the activity of the so-called selected and crisis areas. The scope of the regional level has not been defined, its institutions and functions have not developed yet.

In the decisions on the distribution of regional development resources, in the decentralisation of planning and in partnership co-ordination headway was made on the *county level* by the setting up of county level development councils. Nation-wide experience shows that while significant problems were caused by the ambiguous legal status of the councils, flexibility in this matter did facilitate the establishment of these institutions, the first decisions on the distribution of funds and the speeding up of the planning processes. With regard to the requirements of the EU the following items are to be highlighted from among the experiences of the operation of the county territorial development councils:

- Certain problems have arisen during their operation which show that the ambiguity of their legal status will lead to problems about their role and other conflicts. The county development council has a right to exclude from its funds those settlements which are not members in any of the associations, or those associations which have failed to pay their dues to the council. In the long run it seems inevitable that strategic planning should belong to the scope of an elected body;
- There is hardly anything as yet to guarantee the effectiveness and expertise of the councils' operation since in most cases there are no separate working organisations with experts employed and with a system of connections and information to build upon. It is clear that the major source of conflicts among the members is the distribution of costs and the establishment and location of the working body;
- The on-line and evaluative financial control of the utilisation of the funds can only be maintained by the State Treasury with the aid of a stronger territorial apparatus because without it the process would become extremely slow. The involvement of the Treasury in regional development is challenged by many, yet within the present organisational framework it would be unwise to reverse the process. The monitoring system should be established on all levels of decision making and distribution parallel to the operation of the financial and legal controlling system.

Bottom-up regional development trends today are the most relevant in the case of *small areas*, therefore to operate them and to maintain their activity is of

vital importance. These communities are markedly affected by the Law on Regional Development which has caused significant conflicts. While the Government initiative is strongly justified that these small regional organisations should draw nearer the borders of the statistic and/or selected areas, yet experience shows that the legislative and Government measures employed so far to encourage this process have not been effective enough. Many settlements are still not members of any associations, and the real activity in many places is not connected to the associations, that is to the council representation, but to previous associations and federations, which usually cover a smaller area, cities and towns in many cases not taking part in them. Here legislation resulted in the duplication, instead of integration, of institutions. Another problem to be solved, especially in the light of EU accession, is whether the extent of county level decentralisation makes it possible that the development councils support investments other than those regionally favoured. It is to be noted here that the principle of *concentration* encourages and makes possible the utilisation of funds primarily in the favoured areas.

Owing to the legal regulations, the weakest level of the territorial division of labour is the *region*. Its missing institution is the regional development council, whose establishment is voluntary, its territory is not aligned by Law to the NUTS II level, it has no resources or scope of authority defined, and it can only perform tasks that are transferred to them by the county development councils from among their own tasks. Those regional councils which have been established so far are still in the process of being organised, their creation is primarily motivated by the EU resources to be obtained. These councils do not yet have definite programmes, working organisations or their own resources. The greatest problem is, however, that their territories do not correspond to the pattern that will expectedly be the NUTS II level in Hungary.

Adhering to the principle of bottom-up development, legislation is partly justified in being cautious in encouraging and prescribing the establishment of associations among counties. Yet in the long term it will hardly be possible to operate and finance a regional development institution and working system where the statistics and programming levels do not correspond to the real scope of authority of the actually operating organs of decision making. Neither would it be sound if a duplicate system emerged with a domestic regional development institution and planning framework on the one hand and an EU oriented one on the other.

The *principle of partnership* emphasised in the EU regional policy seems more important than either the political legitimacy of regional policy decisions or subsidiarity, therefore the Hungarian institutional system is, in this respect, progressive.

Another characteristic of Hungarian decentralisation, which seems to make little difference in the accession to the EU and is also attested to in other countries, is that the targets of decentralisation are not the local governments and not

the administrative organs, but special partnership organisations operating on the basis of delegation. What is problematic, however, is that strategic planning is also done by these partnership organisations. Within this framework of decision making the publicity of regional planning is less ensured.

According to the EU regulations on the Structural Funds, on the *principle of subsidiarity* not only the Member State can be assumed as a partner in the Union level regional policy but also the regional and local authorities, and, as defined by the internal legislation of the Member States, its economic and social organisations. Their participation is on the regional level and in the debates among the partners which continuously shape the EU level measures.

The Hungarian partnership organisations are mostly dominated by the s. On the regional level the partnership organisations do not function, therefore their strong integration or their federation would be absolutely necessary. The requirements of partnership are not exhausted by the establishment of the special partnership organisations but these organisations are to work in a co-operative manner with wide publicity. The Hungarian partnership institution system fails to comply with these requirements yet.

Another requirement that the management of regional development has to meet is *co-ordination*, the present legal regulation and institutions of which are not satisfactory. *Agenda 2000* emphasises co-ordination especially among the ministries for the concentrated and effective utilisation of the resources. The National Regional Development Council and the National Regional Development Centre operating beside the former are two organisations which are capable of to ensuring the co-ordination between the sectors. At the same time its present powers, licences, legal status and composition indicate that the Council has no strong co-ordinating impact. On territorial level co-ordination and the concentration of resources also fail to work properly: rural development resources, for instance, are distributed by the bureaus of the Ministry of Agriculture, the deconcentrated organs concerned in regional development are only invited in the regional development councils. On the whole, the institutions and the operational framework of co-ordination are almost completely undeveloped.

3.1.2 Programming

Programming, which has not been practised in Hungary yet, in the wide context includes both planning and implementation. In the narrow sense of the word it is a strict order of procedures which is compelling in both the preparation and implementation of the programmes (*Faragó, 1995, 1997*).

The point of programming is:

- *Strategic approach*: only those projects (operative programmes) can be supported which fit one of the *strategic programmes*;
- *Integrated*, and not centralised, *distribution of resources*: through the integrated utilisation of the various resources, aiming at a synergic effect, the resources can be more effectively utilised;

- The requirement of *coherence* (pyramid of goals): national level macro-goals and local development initiatives should strengthen each other. The best social and economic effects can be achieved by supporting measures which enhance each other's impacts;
- It builds upon the *vertical and horizontal co-ordination* and co-operation effected by *decentralisation*;
- Its integrating element is *territoriality*, therefore the development units and the areas of action are the various (national, regional and smaller) territorial units;
- A basic requirement is that the process of financing and implementation can be *controlled* and *transparent*, which requires the establishment of a *monitoring* system.

The practice of regional development and territorial planning is not uniform in the countries of the Union. We are therefore not expected to adhere to a non-existent unified practice but to assert the *common basic principles* and to integrate the necessary common elements and connecting points into the Hungarian practice. The EU does not define directives in regional development and territorial planning; but sources from the Structural Funds are distributed on certain conditions, which, in our own interest, should be fulfilled. The expectations of the Union in territorial planning are expected to be integrated in the regulations on the distribution of the Structural Funds after 1999 (*Begg, 1997; Agenda 2000*).

The already existing conditions and strengths that facilitate the introduction of programming:

- The legal framework of regional development exists;
- The backbone of strategic programming is strategic planning, and the Hungarian practice of making development concepts is similar to strategic planning. Development concepts prepared or being prepared for the various territorial units could be expanded or transformed into strategic programmes;
- Part of the resources have already been decentralised and distributed through tenders;
- The banking system (Treasury, banks) has been established and is capable of handling financial assistance.

Deficiencies and weaknesses in the introduction of programming are as follows:

- The greatest obstacle to the introduction of programming is the present practice of budget planning. The strategic and operative programmes, therefore, do not have a real budget background;
- There is no real link between strategic planning and the operative (sectoral) programmes;

- The concrete programmes are monocentered, harmonisation with other programmes is lacking. The mechanism of broad scale co-ordination is undeveloped;
- The utilisation of the various (central) resources is not co-ordinated. At lower levels, own local resources, which would strengthen resolution in development, are not added to the central resources;
- The regional level is weak. It lacks its own scope of decision making and financial resources. Its scope of authority and the content of its planning has not been clearly defined;
- Regions that are formed voluntarily and containing a number of subjective (political) elements do not facilitate long term strategic programming;
- Regional development monitoring is missing and so is the evaluation system of the utilisation of resources.

3.1.3 Concentration and additionality

Conditions for *concentration* and *additionality* are still deficient in Hungary. Apart from the geographical concentration of the regional development resources (the EU-conform geographical designation of the types of assisted areas), which will remain in national competence in the future anyway, neither activity-based concentration nor the combination of resources comply with EU principles and trends.

In all assisted areas of the European Union investments *creating new jobs, supporting enterprises* and having to do with human infrastructure development have a significantly greater share than in Hungary while those having to do with technological infrastructure have smaller. Part, but definitely not the whole, of this discrepancy can be explained by the underdeveloped nature of the Hungarian infrastructure. Local governments should mature and instead of over-emphasising their own direct responsibility and of concentrating on investments that directly influence their political popularity they should put much greater emphasis on the support of business and on the creation of a favourable environment for business. If this will not be the case then local government behaviour itself will be the major reason why they are not sufficiently involved in regional development decisions. The increasing weight of economic development renders greater importance to the territorial centres where conditions are more favourable for the concentrated creation of jobs.

Resources influencing regional development are splintered, at present, funds are shared among nine ministries. The co-ordination of resources is weak. It is inevitable that the mechanisms for the uniform handling, regional distribution and utilisation of the development resources be established. Local governments in Hungary receive various forms of assistance but the equalising mechanisms are of different orientations and operate on different principles.

The Hungarian local government system, within the communal sector, is overweighed and focused on the maintenance of institutions, which, as far as the regional development policy is concerned, makes it difficult to have a clear overall picture: financial inequalities (when tasks and resources are compared) cannot be clearly assessed, therefore the goal and resources system of equalisation misses its aims (e.g. finances may fail even at high indices of supply). The territorial level of local government is incapable of operating a comprehensive goal and resources system in territorial policy. Mobilisable local government means are scarce (and ever decreasing), the creditability of the local governments is weak, along with their poor budgets they are coping with profound problems of maintaining and operating their institutions, they practically have no free resources. This is true in the case of both larger cities, which are determining factors in regionalisation, and county level local governments, which have hardly any revenues other than fees.

The magnitude of *financial resources assigned directly for regional development goals* is insignificant in comparison with other funds. The processes of the various funds in defining their goals, methods of distribution and selection criteria are not harmonised. The need for harmonisation and co-ordination to comply with territorial aspects still emerges as a Government concern rather than as practice while sectoral aspects and assertion of interests are still dominant.

Joint financing does not only raise quantitative but also administrative requirements. One prerequisite for the approval of EU assistance is that a statement of recognition of financial obligations on the part of the central and local governments and the private investors throughout the duration of the project be enclosed in the application. In Hungary, where budget planning for several years ahead does not or hardly exists, this requirement poses considerable problems. Regulations change every year, which makes financial obligations for several years ahead disproportionately risky. Here EU financing is linked to the further development of the whole regulation system to result in more stable regulation. Without this it is impossible to receive considerable assistance.

3.2 Regionalisation

3.2.1 The concept of region in the context of regional development

The concept of region in the context of regional development (referred to in the following as region) is the determining institutional framework of the definition, working out and implementation of the various regional development objectives.

The region is the primary territorial unit of the development of territorial economic and directly linked major (production) infrastructural systems, where the primary goal is the development of the whole of the territory, but where

cohesion, the reduction of the internal (mainly inter-county) differences is also to be aimed at.

Therefore the basic *territorial policy function* of the region is to expose, co-ordinate, represent and assert the general regional interest (having to do with territorial development) beside the interests of the settlements, small regions, the counties, the sectors and the macro-economy. The two most important elements in the content of its function are territorial economic organisation and development and regional infrastructural development. The goals of this function are to create a region capable of autonomous development, shaped in the direction of stronger internal cohesion and to establish the regional market by strengthening territorial division of labour and by systematically developing the infrastructure.

Therefore the region is a firm *level of decentralisation* working on the basis of a long term strategy, with a co-ordinating and integrative role, where bottom-up territorial interests are primarily represented. At the same time it is the scene of co-ordination with national regional development interests.

To fulfil this role the region has to be a basic element in the *territorial information system* and a determining level in territorial planning, and it has to possess the necessary scope of authority in decision making, financing, control, etc. In other words the region is an:

- information (statistics and registration),
- planning-programming, and
- development unit.

In Hungarian practice so far these elements have only been present relatively.

Joining the NUTS system of the EU is one of the preparatory elements before accession to the organisation, since, among other reasons, this is the only channel through which Hungary can engage the regional policy of the EU and receive substantial supplementary resources for its regional development goals.

The territorial units of the five-level statistical and territorial system of NUTS are of different importance and significance concerning regional development policy. NUTS II level has a determining, NUTS I level has a supplementary role in the present regional development policy.

NUTS II level is:

- the primary level in the working out and assertion of the regional policies of the different countries and the European Union,
- the level for statistics and analysis, information, comparison and the circulation of data in connection with regional development and planning,
- the primary level of the preparation and implementation of regional development concepts and programmes,
- the level where the decentralised and co-ordinated distribution of the regional and horizontal assistance of the EU Structural Funds and the distribution of the internal regional development resources take place.

3.2.2 Unsuccessful attempts for regionalisation in Hungary

The national level political approach to the region and to regionalism has changed several times in history but, in spite of plans and attempts for reform, has always remained uncertain. None of the political regimes undertook or found it feasible to do away with the centralised structure of power, politics and administration and to establish a real territorial division of power (*Hajdú*, 1993c; *Pálné*, 1997).

In the Hungarian social and political development and in the administrative spatial organisation the counties have played a distinguished role until as recently as 1990. Sabotaging "from below", they were several times able to shipwreck attempts for comprehensive regionalisation, which were initiated from above or from academic circles and were themselves in most cases heavily burdened with uncertainty (*Hajdú*, 1993b).

Within spatial frameworks broader than the county level there has traditionally been a lack of such power group or interest group which could or would wish to force the regionalisation of the country.

Several sectoral attempts (in administration, planning, regional and settlement development) have been made for the establishment of the country's regional structure but each of these attempts and territorial divisions proved short-lived.

Even today power and politics on both central and territorial (county) level regard the region and regionalisation as a threat.

The territorial division of the regions defined by the principles of "complexity", homogeneity and functionality and the regions defined by sectoral (administration, planning, development, statistics, industry and agriculture) considerations, either hypothetical or prepared on the basis of real territorial research, have led to vastly different configurations.

To sum up: there exists no political or professional consensus regarding the concept, function, hierarchic structure, number, territorial framework etc. of the region.

3.2.3 Reasons for the creation of the regions

In Hungary the regions are necessary for the correction of the regional policy, for the establishment of the framework of further decentralisation and to create the conditions of compatibility for accession to the EU.

The emerging and partly institutionalised spatial structure (small regions, counties) is not sufficient for a *regional policy oriented in economic development*, because:

- The smallest unit of the territorial economy is the county (because of the existing institutional system and potential, the capability and factors of capital attraction, the existence of a suitably sized and concentrated mar-

ket, the conditions for the development of the division of labour and of the market economy, and the possibility of an increasing employment level);

- Within the existing framework, competition among the local and territorial initiatives for development is inevitably limited, the size of the territorial development initiatives renders them infeasible (the initiatives are splintered and local);
- No direct reference can be realised between the national spatial development requirements and practice and the local and territorial aspirations and initiatives, co-ordination is only partial and formal;
- The elements decisive in territorial economic growth belong in the system of requirements of the central management level;
- Important principles of regional policy laid down by law (programming, concentration, subsidiarity) can only be asserted to a rather limited extent within the present framework;
- The present institutional structure does not follow all of the territorial interest levels in the same way and *with the same scope of authority*, this deficiency results in centralisation and the dominance of sectoral interests (the decentralised regional development institution system can only indirectly handle the decisive elements of modern regional development, such as territorial economic clusters and networks, business services, R&D and innovation, environmental development, regional communication and transport networks, territorial cohesion etc.).

The existing regional development institution system and mechanism destines the regional development policy to be basically short term, budget dependent and divided, with little power to assert interests;

Opportunity for further decentralisation is limited within the present framework, because, on the basis of the existing spatial units, the information, interest, decision-making, control etc. conditions for the functions and competencies to be decentralised are not ensured and cannot be established without violating the full assertion of the principles of the regional development policy (including primarily the principles of concentration, programming and subsidiarity).

Accession to the European Union and participation in its potential regional funds require *compliance with the regional policy of the European Union* and with its statistics and information system.

With or without respect to accession to the EU, the new national territorial system of regional development, one which is capable of adjusting to the quickly changing real processes, should be established. On the whole, as far as regional policy and the establishment of the regions are concerned, the internal reasons for reform and the tasks induced by the requirements for the accession to the EU converge.

4 Tasks to be implemented before EU-accession

During the conference on accession, no severe conflicts to be solved immediately are likely to arise in the question of the institutional system since almost all EU principles on regional policy are included in the regulation of the Hungarian institutional system except for the professional working body, the handling of finances and monitoring. In the further development of the institutional system absolute priority should be given to the *regional decision level*, to Government and sectoral co-ordination, to a professional working body and to the establishment of monitoring.

4.1 The regulation of the functions of different decision-making levels

4.1.1 Decentralised levels

An important task at all levels is to clearly define the *legal nature of the decision-making and executive organisations of regional development* and to prepare detailed and accurate codes for the organisations.

When clarifying the legal nature of the *regional development councils*, unambiguous regulation is necessary primarily in the legal control over their operation, in the legal control over their finances, in revealing fraud, in the legal nature of the planning decisions made by the councils, in the rights and obligations ensuing from membership in the council, in the financing of their operation, in the system of legal remedies against council decisions on the distribution of resources, in the publicity of the operation of the councils, in the democratic control of the councils and in the mechanism of local partnership.

Clarification of these regulations is necessary because the forms of partnership common and wide-spread in the EU are voluntary, they do not cover the whole administrative territory of the country, and do not make decisions pertaining to the executive power, strategic planning or redistribution of Government resources. Judged by the Commission report on Hungary it seems that the Union is not properly informed about the relationship between the regional development councils and the local governments and about their legal characteristics. Therefore it would be wise to prevent possible objections by more accurately regulating the existing Hungarian model, already challenged by certain political circles, which is different from the common Western European system of consultative and voluntary partnership organisations of regional policy but with a stronger legal basis. More accurate regulation should especially affect the control and democratic publicity of the regional development councils.

The establishment of *regional development working organisations* (agencies) is also to be tackled on a general basis. It should be made clear on which levels

the Government encourages the establishment of the organisations. Given the resistance of the local actors against the establishment of the working organisation, the solution in this stalemate situation could be effected by strong Government support for the establishment of the working organisations through the central financing of the organisations on the one hand and through the working out of the organisational form on the other, perhaps also endowing them with their own legal entity and tasks. The working organisations could, for instance, have centrally defined tasks in connection with the territorial information system, with monitoring and with the preparation of applications and tenders. The establishment of the working organisations is an urging task since expertly programmed and competent management are the keys to gain access to EU funds. A full time, well-sized professional and competent working organisation is especially necessary at the *regional level*. At county level the increased involvement of the county and city local governments and chambers may easier ensure the establishment of their own working organisation, from local resources and by local decisions. In the case of *small area associations*, towns and cities should undertake a greater role or, in the long term, it is possible that general associations may be formed comprising gravity zones of cities or small areas which can perform local tasks of regional development.

4.1.2 The central level

An extremely important task, expectedly taking up longer time and involving a number of conflicts, is the strengthening of *Government co-ordination*. This is the field where the EU opinion is the most critical in spite of the fact that the National Regional Development Council already exists.

The role of the council could be strengthened to some extent even without the modification of the law, if, for instance, the participants were represented at a high political level. Although this is prescribed by law, since the Government side has to be represented in the work by one of its ministers, the existing practice is different. The regional development act itself contains contradiction, since in theory it enables the council to make decisions, yet the text of the act only allows for decision making in approving of its own procedures and, in case of objection by a minister, to call on the county development council to carry out new level. Although this is prescribed by law, since the Government side has to be represented in the work by one of its ministers, the existing practice is different procedure.

The real strengthening of the council would be possible through modification of the law, namely by endowing it with authority of decision and agreement, and/or by modifying its presidency and its connections to the ministries (the Prime Minister, the Prime Minister's Office), co-ordination between ministries cannot be rendered into the competence of one ministry.

It is only a strengthened National Regional Development Council which will be capable of co-ordinating national regional development planning, program-

ming and financing. The Central Regional Development Monitoring Committee should be set up at beside the council.

The modification of the organisation and dependency relations of the council may interfere with some positions of the Ministry of Environment and Regional Policy and scope of authority but this has to be considered as subject to the interests of the Government level co-ordination of regional policy.

4.1.3 Other modifications of the organisational system

An important deficiency of both the territorial and central institutional systems is that the organisation and operation of the *territorial information systems* are undeveloped and have not been regulated yet in spite of the fact that a Government decree has been issued in this question. The county chief notary's authority in the territorial information system is challenged by many. This is by all means to be reconsidered since the Central Statistical Office seems more suitable for the task; also the strengthened management of the regional development councils would be a better choice in the future. A EU-conform statistical system is basically founded upon the Central Statistical Office and it cannot be the question of local consideration and initiation anyway. The setting up of a solely central based statistical system would be the most satisfying solution.

A matter of long term consideration is that the *relationship of the regional development institutional system and the administrative and local government system* should be set on a new *basis*, perhaps a territorial reform should be carried out. From the point of view of regional policy this is important because experience shows that those regions of programming and development which are compatible with the administration are in a better position and hold political legitimacy. Sectoral co-ordination, too, is easier in case of a regional development system compatible with the administration:

In the long run it is conceivable that the regions become the framework not only of regional development but of a broader horizon of central and local government involvement. This would influence the future of the counties, and that obviously in the direction of their getting functionally weaker.

A more real alternative seems to be, however, the political strengthening of the counties, which in turn involves that the doubled regional development decision system on the county level may be abolished and the important competencies will be rendered back to the county governments.

It also needs more time to work out, considering the horizontal and partnership relations which primarily characterise the activity of regional development, the regulation of the so-called *political or planning contracts*. These contracts are capable, through by-passing the planning hierarchy and redistribution, of co-ordinating the activity of the partners in advance, making it calculable. These, in turn, could be made the legal framework of programming but especially that of the concentration of resources.

There are marked deficiencies in the field of professional consulting, planning and financing institutions connected to regional development, either profit oriented or not. This decreases the professional standards of programming, decreases absorbtivity and lessens the volume of local resources.

4.2 Building the region and the functions of the regional development organisations

4.2.1 Establishing the regions

The institutional and operational processes of regional development so far have been characterised by the adaptation to the regional level of the mechanisms of the previous regional development system, which was linked in a one-way dependency to the central level, but no particular new content of regional development has been expressed during this process.

The ideal of bottom up building, too much respect for lower level development and decision autonomies which were very disperse and often lacking in real substance, and the lack of a national regional development strategy (which made it almost impossible to encourage processes matching the goals of a coherent regional policy) started a building process which little considered the macro-economic interests in the country's spatial structure, was rather incongruent with it and was not controlled with regard to the basic goals of regional policy. This building process, accompanied by the counties' protection of their administrative and power status, excludes the possibility that a region with relevant functions be established on a voluntary basis. What is more, the prevailing regional development institutional system, which is of the executive-distributive type, inevitably prefers exclusiveness to a more flexible organisational-developmental variety. Therefore, and also because of the urging time limits, the EU-compatible regions of the regional development policy are to be established through a *central political decision*, not excluding, however, other occasional or long term emergence of voluntary regional self-organisation.

The Hungarian structure to be worked out is influenced by the system of requirements ensuing from the present EU structures, but is not automatically determined by it. When working out the Hungarian structure, and therefore when defining the regions of programming, decision makers have considerable freedom of action.

- The NUTS system is the structural unit of the EU for statistics, registration, information and development; EU-compatibility, therefore, requires that the Hungarian structure be established and harmonised to the NUTS structure before accession to the EU;
- The NUTS II region, in the present framework, is the scene of the reception and utilisation of the European Union regional development resources, thus playing a key role in the system. In the 15 Member States of

the European Union the NUTS II region is a category for economy of scale. The NUTS II region also works as the framework of the decentralisation of the regional development activity and funds in the present member states of the European Union;

- Owing to conscious regional policy and practice, the programming region is also the framework of the strengthening of internal regional cohesion and competitiveness.

The 206 NUTS II regions of the EU widely differ in their legal and administrative position, in their size and population. Basically, they are nationally designated units, at the same time the NUTS II system of each country complies with the uniform requirements in that they are compact units of statistics (registration and analysis), planning (programming, co-ordination) and regional development (assistance policy, decentralisation).

The number of the middle-level administrative units in the ten associated Eastern European countries is 357, out of which 250 belongs to those five which were selected for the first round of negotiations (to be noted that 147 of these units is in Slovenia) (Horváth, 1996a). It is obvious that the EU cannot handle this many territorial units as subjects of assistance. It is inevitable, therefore, to create greater territorial units for this purpose.

The basic question in introducing the NUTS system, and within it the establishment of the key NUTS II level, is to what extent the Hungarian State reconsiders the ways its system is built up and operated and how it can solve, or leave as it is, the problem of the territorial structure of its administration.

There is no external constraint from the EU for the modification of the system and administration of the Hungarian State. The organisational and territorial structures that match the regional policy of the EU can be established through minor modifications in the existing Hungarian structures.

4.2.2 Geographical designation of the regions

The actual geographical designation of the NUTS system and within it the NUTS II level, is an internal affair from the EU's point of view, which means that apart from some general criteria there are no absolute EU requirements about the geographical designation, so the Hungarian parties involved have to reach their own consensus.

All the more so, since the main aspects to be considered in the geographical designation of the development regions are the following:

- previous history of regional co-operation, opportunities for territorial cohesion,
- proportionality in the country's spatial structure,
- relative territorial homogeneity considering the basic goals of regional policy,

- internal structures of the regions that allow proper operation (centre, sub-centres, willingness and ability for co-operation etc.), compliance with administrative borders,
- the "geo-political" similarity of the units to be integrated into the region, the proximity of the international orientations which are decisive in the long term,
- costs of the establishment and operation (the institutions for decision making and for the preparation of decisions, the professional and administrative background institutions, the organisations for information management, planning, management and controlling-monitoring activities, the institution system for decentralised financing), economy of scale with regard to the functions.

On the basis of the above aspects there are more reasons that support the six-part division. The most important of these reasons are:

- The two-part, as opposed to the three-part, division of the Transdanubia is more grounded historically;
- The internal cohesion of the territorial units realised by the two-part division of the Transdanubia is stronger, the courses of development predictable on the basis of internal resources also suggest unity along these lines of division;
- Further partitioning would lead to such dualities of development which are spatially unnecessary when the whole of the country is regarded;
- The two units, although different in nature and development, have territorially accepted regional centres, the emergence of a third regional centre has little ground and is hardly probable.

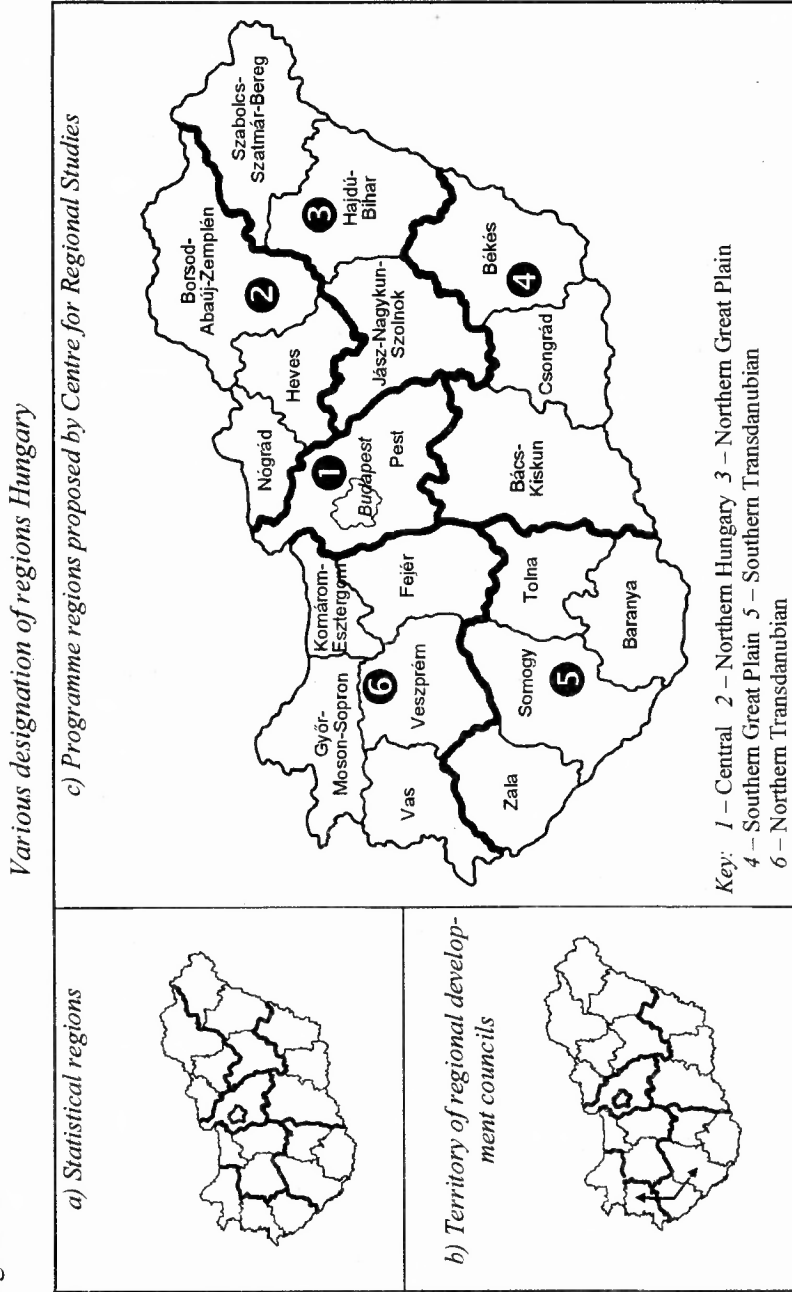
The regions to be established are shown in *Figure 12*.

In this situation the responsibility and the capability of making a decision on the side of the Government and the Parliament are determining. When defining the regional units it is not the particular and short term territorial financial interests that have to be considered, but rather the regions' better matching to the EU structure and, in the "Transdanubia debate", the long term structural interests of the country and of the area.

4.2.3 The operation of the regions

After the geographical designation of the regions, the regulation of their development councils has to be made more clear. Their tasks, organisations and tools have to be precisely defined.

Figure 12



The *scope of authority* of the regional development councils should be defined congruent with the NUTS II units. This could be done by modifying the regional development act to prescribe that the regional councils be established as the scenes of interest harmonisation between the central government and the region. The Government has a right to initiate the establishment of these regional development councils, and if it declared that it would only participate in these regional development councils this may effect the voluntary participation of the counties;

The relationship between the institution system and the various concepts of the region used in the Law and in the National Regional Development Concept (planning region, functional region, development region, programme region, special area) should be made unambiguous. The regions, working with the participation of the Government and having their own resources and scope of authority, should be identical to the *six NUTS II units*, while the Regional Development Council of Budapest and that of the Lake Balaton are not part of this structure.

The regional development council should have its own resources provided for by law, and it should also be laid down that the primary beneficiaries of the EU regional assistance are the regions. The concentration of resources and the integration of sectoral resources require that the addressees of territorial redistribution should be the regions. At county level, decisions should be made on the infrastructural resources of the settlements and small area local governments; where considerations of equity and the goals of equalising should prevail.

Modifications should be made in the *composition* of the regional development councils to ensure the representation of the county seats, keeping in mind that the larger towns cities play an increasing role in the regional policy of the EU. The small region associations, the chambers and the employees of the small region should each send one representative to the council. Regional integration among the chambers may be especially feasible in the long term, for which the existing legislation on chambers provides an opportunity. The system of contacts between the regional development councils and the sectoral administrative organs should be established.

The regional development councils should not have a deduced scope of authority, but their tasks should be directly *laid down by law*, not forgetting that the majority of the decentralised regional development resources and most of the international resources would be devoted to them, and that they would be an important scene of the interest harmonisation between the central and territorial levels. Among the tasks laid down by law, of special importance are the roles of general economic development, participation in the international regional co-operation, the development of the greater infrastructural networks, developments which are important from an environmental point of view, activities connected to innovation and the technological transfer, and the professional support of planning at the lower levels.

It is advisable to set up a professional *regional development agency* for the planning and implementation of programmes. The agency may also perform all of the tasks of a working organisation. For the delicate task of the preparation and co-ordination of decisions, which is a crucial point in the operation of the whole system, even in this case, a separate system should be established. All the more so, since the building of partnership is yet the least developed element of regional development, while the *ex ante* representation of the interests of the various actors in the decisions is required by the need for a more public planning on one hand, and by the very idea of integrated joint financing. The establishment of the region does not necessarily involve the modification of the structure and territorial system of the potential partnership organisations, which would otherwise significantly expand the already substantial tasks of co-ordination.

A *monitoring committee* should also be operated along with the regional development councils. The handling of the resources of the regional development councils should be the task of *banks or the Treasury*. During the *transition period* before the accession to the EU, for the purposes of organising the regions and of fostering regional planning and innovation, resources can be obtained, in the form of pilot programmes, from the so-called communal innovation projects included in the programmes supported from the European Regional Development Fund, and within the framework of the Communal Initiatives.

4.3 The setting up of the programming system

The preparation of *regional plans* (programmes) conforming to the assistance system should be begun:

- The National Regional Development Concept should be converted into a *National Development Plan* (national programme). Beside actualisation, it should be supplemented with macro-economic and sectoral evaluations and programmes. The time span of this plan is seven years. The next programming period in the EU is expected to be between 2000 and 2006, therefore it is to prepare the programme for this period;
- The developments that are highlighted in the National Development Plan as central tasks should be turned into *operative programmes*, and it should be encouraged that they also be built into the lower level programmes. The operative programme should also include in a co-ordinated way all those projects of national scale which the central Government wishes to implement either on its own or in joint financing. The time span depends on the programmes, but is generally between two and three years. The yearly budget should also include the budgetary coverage for the approved programmes;

- The regional development concepts which have been or are being prepared should be modified to meet the requirements for the Single Programming Document.

The *regional development assistance system* should be modernised. It would be advisable to apply the EU guiding principles on assistance in the Hungarian support policy, no matter whether accession to the Community is considered or not. The majority of the resources should be invested into large scale programmes (at least 0.5 but preferably more than 2 billion HUF) since these are the projects that can be feasibly realised in joint financing.

The regional development act only contains the basic elements of the *institutional system* of programming. For the accession it is required that this institution system be unambiguously defined and its functions clarified.

4.4 The reform of the financing regional development

4.4.1 The concentration of resources

One precondition of programme financing is that the assistance resources should operate systematically and on similar bases and that co-ordination among them should be ensured in an institutional form. In the case of a great number of resources or which belong to several ministries this precondition is difficult to satisfy. Therefore, and also for the more efficient organisation of regional decentralisation, it is advisable to reduce the number of assistance types. At the same time, concentration serves the considerable expansion of the volume of direct regional development resources.

A shift is necessary in the Government's attitude to responsibility; it would be necessary to work out a budget and financing system which ensures the realisation of a self-dependent and conscious regional development policy. This requires increased Government co-ordination and the marked representation of regional interests in the Government's financial decision mechanisms.

The tasks defined in the Government proposal (*Ministry of Finance*, 18 July 1997) drafting the EU-conform restructuring of the Hungarian support system are identical to the basic goals of the further development of the regional development policy, since:

- it prescribes the concentration of resources,
- intends to set up a single information system for the various forms of assistance,
- it declares the necessity of joint financing,
- it commits itself for regional decentralisation,
- proposes the reform of the budget.

Access to EU assistance requires change in the *structure of the central and local government budgets*. It seems advisable to prepare separate budgets for operation and for development. There is a case for the restructuring of the Government funds and earmarked provisions in a way which makes it possible to separate the financing of public tasks from the assistance system for developments (e.g. no operational or clearly social financing should be made from funds and earmarked provisions devoted to development purposes). In the long run efforts should be made to ensure that the development resources should emerge in different financial funds according to their different prior goals. This involves also the merging and restructuring of funds and earmarked provisions.

4.4.2 Additionality

Another basic problem of the financing of the goals of the cohesion policy is the volume of the national (budgetary, local government and business) resources assigned to the EU assistance resources. In the case of assistance from the Cohesion Fund the internal part is 15%, while in the case of the Structural Funds it is 25 to 50%.

It is theoretically conceivable, yet practically impossible, that the internal part be covered by purely Government obligation, therefore the actors involved and interested in regional development should be brought to a position where they dispose of considerable own resources and participate in the distribution of central assistance to different extents according to the types of resource.

The actual transferring of the resources is generally rather slow and bureaucratic, therefore it is necessary to clarify how and through what channels *the sums can be loaned*. For this purpose and for the handling of money, keeping in mind the requirements of commission through tender, a bank or the Treasury would be suitable. This in itself may contribute to the decentralisation of the banking sphere and/or to the strengthening of the territorial network of the Treasury.

The efficiency of the financing system is increased by the *mechanism of planning contracts* between the central Government, the region and the other actors of regional development, the document including the legal and financial obligations of the unification and utilisation of the various resources.

It is in the strategic programmes, and in the National Development Plan within the framework of programme financing, that the budget defines the structural assistance objectives, the volume of Government contribution and those resources of the local governments and of the economic sphere which have to be taken into account. At the same time the volume of those regional development resources and foreign resources have to be also recorded which are to be used for this purpose. A separate programme should be designed to effect a significant change in attitude in order to draw community resources into the play and to win the favour of investors.

Local government financing should be developed in such a way that each local government be provided with enough resources to perform its obligatory tasks, to implement the tasks it has undertaken, to carry out developments, cope with deficiencies and to contribute to the regional development goals. Coverage for this is to be provided by the total sum of all assistance plus the allocated and own resources. This system may ensure that the local governments and the various other actors of regional development can all participate in the financing of the developments. The other side of this is that local developments of the local government should be primarily financed from local government and local economic resources. Central state financing by right is necessary only when a local development objective helps solve a problem of national scope, needs substantial capital investment, its return can only be expected in the long term and other resources are difficult to involve.

Beside the decreasing of the role and proportion of central assistance, it is increased own resources, better ability of self-financing and restructured local taxes (possibly with the introduction of extra taxation) that can establish the basic framework in which the local governments' contribution to the resources can be ensured, that is, that the local government sphere, following the requirements of changing budgetary planning, can take responsibility in advance.

There should be such automatic processes built into the financing system which make it possible to plan for several years ahead and allow for free motion and divergence only in a very narrow domain in order that the local governments can properly fulfil their obligations as scheduled in the financial plan.

In the local government sphere the desirable conditions of operation would be provided by the application of a resources system which fosters financial self-dependence, at the same time ensures equalisation among the local governments of different income capacities. There are basically two possible ways of increasing *financial self-dependence* in present-day Hungary. One is the transformation of the divided personal income tax system to one of central and local decisions, the other is the introduction of local property-taxation on the basis of property value. This may provide an income source primarily for the local governments of the towns and cities. Among local taxes, a value based property tax would be necessary. When introducing that, however, several tasks would have to be solved such as to create legislation on the process of estimation, organise training programmes and prepare the public for the new system. Personal income tax will, in the long term, remain one of the basic financing elements of local government management, emphasising the operation of the income equalisation mechanism in the field of local government financing and helping developments through the system of target supports (opinions are divided on the role and future of the industrial production tax).

This system will not work unless the systematic reform of the tasks and authority of the local governments is carried through and the levels of competence are

clarified. Beside the reduction of tasks of the small settlement local governments, which will still lack sufficient resources in the long term, and beside the organisation of the services in an integrated and associative form, the running of the settlement equalising system, working independently of regional development, will also be necessary.

Depending on the approval of the proposed measures it would be necessary to complete two further tasks. One is to carry out the proper impact analyses meeting all sectoral, economic, territorial and social aspects, and to review the whole of the effective legal material, making modifications if necessary. This affects the acts on regional development, on state finances, on the budget, on the local governments and on local taxes, and later may involve the modification of the Constitution.

4.5 The expected economic and political impacts of accession, parties of counter-interest

The most important *economic impact* of the EU-conform regional policy and communal assistance is that, after the reception conditions are ensured, regional development will have resources of a greater order of magnitude than at present. Part of this, through the creation of new jobs, will directly flow to the economic actors. Even more significant will be the increasing opportunities for background infrastructural development.

The new regional policy is expected to effect the catching up of the less developed parts of the country and the strengthening of the competitiveness and income productivity of the regions. Apart from the actual economic effects the transformation of the system of institutions and tools of regional policy will have important *professional, moral and political impacts*.

The handling of EU resources requires the application of such *planning, financing, co-operational and controlling* methods which, without the accession, could only be mastered much slower and with much more difficulty. Modern planning, programme and project management, the "value for money" way of thinking and the strict rules of avoiding corruption introduce a new practice, the effects of which may penetrate those fields not affected by the Structural Funds thus facilitating the modernisation of the country.

Accession to the EU also enforces the transformation of the *institution system*. The assertion of the principles of decentralisation, subsidiarity and partnership requires the redefinition of the decision competencies, the decentralisation of power and the strengthening of the autonomy of the territorial communities. The present unitary State of Hungary may become a *decentralised country*.

During the preparations for the restructuring of the decision-making positions, conflicts may arise, especially in the following fields:

- *National level:*
 - sectoral obtuseness and counter-interests,
 - fight for competencies between ministries,
 - attempts for centralisation (e.g. the intentional misinterpretation of the principle of concentration);
- *Regional level:* in the lack of traditions, institutionalisation and resources the regions may become incompetent; in Hungary feelings against the redistribution unit are still too strong. The county local governments are afraid of the region. The strengthening of the counties' competence for infrastructural development will encounter resistance by the settlement local governments;
- Programming will require financing different from what prevails, so the redistribution of revenues and the *loss of decision positions* (power) may induce resistance;
- The refinement of the co-ordination mechanisms and keeping to the democratic rules may temporarily *prolong* the planning and decision process and hinder professional rationality;
- Since the whole of the country will be assisted, the potential addressees may include the developed regions and Budapest, which will probably further *sharpen the antagonism between developed and backward regions*;
- Owing to the intensive presence of the Government and the profound deficiencies of the public services system, the *equalisation objectives* in Hungary always *seem more important* than the advantages ensuing from decentralisation. This is true for both the central, territorial and local government policies and for the typical local government opinion. The requirements of *geographical concentration* may fuel antipathy among the rural settlements, resistance against the territorial centres (towns) intensifies and chances for regional co-operation decline. Since the small areas do not share regional development functions and resources, what is more, the new regulation will even decrease their resources, objections from the small area organisations can be expected. A separate programme should be worked out to make it understood that *regional development is primarily the task of the regional level*;
- The birth of the Hungarian regional development council was burdened with compromises and *political pressure about the new institution system is not going to subside even in the future*. This threatens the corporate decision making and co-ordinating role and gives way, instead, to the distribution of the central funds. For the financing of regional development this would mean that the regional development policy is not run by the interests of the communal sector, that the partition of the system prevails and that the private sphere remains isolated.

5 Concluding remarks

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. 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:

- which 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,
- which 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,
- which 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 substi-

tute 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 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, is the key principles of EU regional policy and the commitment to EU economic and social cohesion, are not to be endangered.

The financial cost of Hungary's accession to the EU regional development budget is 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, there has been a recent trend to achieve greater compatibility between EU and Hungarian regional policies.

Appendix: A chronology of regional policy in Hungary (1990–1998)*

1990

- Establishing the Ministry of Environment and Regional Policy

1991

- Parliamentary Resolution 24/1991 on certain current questions on nature protection, landscape protection and utilisation of Great Hungarian Plain
- Government Resolution 1038/1991 on regional development assistance serving the purpose of job creation and the development of backward areas
- Government Resolution 1073/1991 on promotive measures of closingup of Szabolcs-Szatmár-Bereg county

1992

- Law LXXXIII of 1992 on Separate State Funds (including Regional Development Fund)
- Parliamentary Resolution 69/1992 on the nature and environmental protection, landscape utilisation of Szigetköz (the upper reaches of the Danube)
- Government Decree 97/1992 on regional development supports for job creation and development of backward areas
- Government Resolution 1031/1992 on mitigation of employment, economic and operation concerns and of the job creation tasks in short-terms in the Ózd area (north-east part of Hungary)
- Government Resolution 1037/1992 on the preparation of establishing Balaton Regional Council
- Government Resolution 1065/1992 on measures for improving the economic and social situation of Nógrád county
- Government Resolution 1070/1992 on the tasks of the development programme of Borsod-Abaúj-Zemplén and Heves counties

1993

- Parliamentary Resolution 84/1993 on the principles of regional development support and on the criteria of classification of eligible areas
- Government Decree 59/1993 on support available from the Supplementary Fund of Targeted Support

* Closed in April 1998.

- Government Decree 161/1993 on the list of eligible areas of regional development
- Government Decree 169/1993 on the detailed rules of allocation of the Regional Development Fund
- Government Decree 174/1993 on the eligible settlements for Supplementary Fund of Targeted Support
- Government Resolution on the tasks of the short and medium-term development of Békés county
- Government Resolution 1010/1993 on the certain questions in connection with the Lake Balaton Regional Council preparation

1994

- Government Decree 52/1994 on amending of 169/1993 Government Decree on the detailed rules of allocation of the Regional Development Fund
- Government Resolution 1007/1994 on establishing the long-term concept and on the short-term development tasks of Pécs-Komló area (in Southern Transdanubian region)
- Government Resolution 1014/1994 on the preparation of economic development of Záhony area (North-eastern part of Great Hungarian Plain)
- Government Resolution 1015/1994 on the financial conditions of gas supply in Zemplén-Abaúj area (in north-eastern part of the country)
- Government Resolution 1022/1994 on the short and medium-term development tasks of Jász-Nagykun-Szolnok county
- Government Resolution 1034/1994 on the questions of the establishing the Lake Velence Regional Development Council
- Government Resolution 1039/1994 on the financial conditions of the gas supply development in the Bihar (Hajdú-Bihar county) and Kevermes (Békés county) small areas
- Government Resolution 1055/1994 on the financing conditions of establishing the gas supply of Szabolcs-Szatmár-Bereg county
- Government Resolution 1099/1994 on the financing of dismantling work necessary the establishment of the industrial park of Ózd

1995

- Government Decree 113/1995 on the support of the integrated restructuring and crisis management programme of Borsod-Abaúj-Zemplén county
- Government Decree 115/1995 on amending of Government Decree 169/1993 on the detailed rules of the use of the Regional Development Fund
- Government Resolution 1046/1995 on measures for promoting economic development of Záhony area

- Government Resolution 1123/1995 on the integrated restructuring and crisis management programmes of Borsod-Abaúj-Zemplén county

1996

- Law XXI of 1996 on Regional Development and Physical Planning
- Government Decree 107/1996 on the detailed rules of the use of development funds serving the purposes of regional equalisation in 1996
- Government Decree 108/1996 on the detailed rules of the use of the targeted budgetary allocation in 1996
- Government Decree 109/1996 on the distribution between the counties of the targeted budgetary allocation for regional development and the development funds serving the purposes of regional equalisation in 1996

1997

- Parliamentary Resolution 30/1997 on the list of eligible areas
- Parliamentary Resolution 97/1997 on modification of eligible criteria of industrially declining areas
- Government Decree 80/1997 on the detailed rules of the regional equalisation supports
- Government Decree 105/1997 on the distribution between counties of the targeted budgetary allocation for regional development and the development funds serving the purposes of regional equalisation in 1997
- Government Decree 106/1997 on the list of eligible areas

1998

- Parliamentary Resolution 35/1998 on the National Regional Development Concept
- Government Decree 19/1998 on the list of eligible areas
- Government Decree 28/1998 on the distribution between counties of the targeted budgetary allocation for regional development and the development funds serving the purposes of regional equalisation in 1998
- Government Decree 32/1998 on the detailed rules of the regional equalisation supports
- Government Decrees 51–58/1998 on designation of enterprise zones

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