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New Modes of Governance

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Priority 7 – Citizens and Governance in the Knowledge-based Society

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Summary

The aim of the paper is to provide a description and an analysis of the evolution of the Hungarian developmental governance regime throughout the 1990s.

Part I. discusses the outcomes of state reform with a focus on the question what roles were assigned and what rooms were given to subnational actors to pursue developmental goals. The most important characteristic of public administration and regional policy in Hungary is that it is excessively centralised. Municipalities are fragmented, fiscal autonomy of the subnational units is small. This part also offers an analysis of the evolution of regionalism in Hungary after the regime change. In Hungary in the nineties there were hardly any bottom-up efforts for the creation of regions. *Act no. XXI of the year 1996 on Regional Development and Spatial Organisation*\(^1\) was designed with EU regulations in mind. The decision actually creates the regions and therefore meets related expectations from the side of the EU. But it does so without eliminating the counties, or even changing their role in the administrative hierarchy. Counties are still elected units, but weak in terms of power and resources. Regions are non-elected and dominated by the counties, but are likely to have a future, even if not necessarily in the present form. The question of the public administrative structure in Hungary remained unanswered in Hungary throughout the nineties, even prior to the question of EU integration and the management of the structural funds. The two most burning questions have been that there is no real meso level of governance between the local level and the central government, and that the sovereignty of the local government is threatened by the dependency on the centre.

Part II. offers a description of the way developmental decisions were made in Hungary throughout the 1990’s focusing on two fields: 1/privatization, economic restructuring and development, and, 2/labour market services and solving problems of social dislocations. Decision-making in these two fields has been highly centralized throughout the 1990’s. There are two institutions within the regions that are responsible for economic restructuring and development. The *Regional Development Agencies (RDAs)* are the administrative units of the seven Regional Development Councils (RDCs). Their legal form is not defined clearly, as are their scope and efficiency of functioning, which can be very different. The financial means of Regional Development Agencies for economic developments are quite limited. The other regional institution is the *Regional Development Holding (RDHs)*, a deconcentrated organ of the Ministry for Economy and Transport. Apart from administering the grant schemes of the ministry, RDHs theoretically act as state equity companies, buying into firms as owners. In practice this role has been very minor, mainly due to the inadequate regulatory framework of this activity.

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\(^{1}\) A területfejlesztésről és a területrendezésről szóló 1996 évi XXI. törvény
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PART I:
The characteristics of public administration and regional policy in Hungary

Zoltán Pogátsa
0. Introduction

The most important characteristic of public administration and regional policy in Hungary today is that they are excessively centralised. Out of all the resources available in the national budget for regional development approximately 4-500 billion HUF are administered by the ministries at a central level, and only 28-30 billion HUF are distributed for use on lower levels of administration.

These lower levels consist at the meso level of “planning and statistical” regions, counties as well as peculiar institutions called “towns with county rights” (see later), and at the local level of local municipalities.

Chart 1: The Hungarian public administrative hierarchy

<table>
<thead>
<tr>
<th>NUTS I</th>
<th>State</th>
</tr>
</thead>
<tbody>
<tr>
<td>NUTS II</td>
<td>7 „Planning and statistical” Regions</td>
</tr>
<tr>
<td>NUTS III</td>
<td>19 Counties</td>
</tr>
<tr>
<td></td>
<td>22 “County right towns”</td>
</tr>
<tr>
<td>NUTS IV</td>
<td>Micro regions</td>
</tr>
<tr>
<td></td>
<td>3130 Municipalities</td>
</tr>
</tbody>
</table>

1. Municipalities

Municipalities as autonomous units benefited greatly from transition. Their rights are guaranteed by Act LXV of 1990 on Local Governments. Especially smaller municipalities were, for the first time, granted the experience of local autonomy and self-governance. This often resulted in the emergence of local politics, especially initially. During the Communist regime smaller settlements were forcefully brought together into groups to be controlled by a single municipality council. Many settlements had gained the negative experience that only the central unit of this Soviet-style council was developed. Many small municipalities that had not been priority areas for development in the previous regime were now in the position to carry out much needed developments in public and social infrastructure. This in turn increased satisfaction and the stability of the system. In fact local autonomy has come to be so important for settlements that they have continued to retain all of their sovereignty up until today, rejecting to form common municipalities amongst several settlements even where the situation would have justified such a step (a common phenomenon not only in Nordic countries, but also in Portugal and neighbouring Austria). Hungary today consists of some 3130 municipalities, many of them very small, as the following table illustrates.

Table 1: Distribution of municipalities in Hungary in terms of population (thousands)

<table>
<thead>
<tr>
<th>Population Range</th>
<th>Count</th>
</tr>
</thead>
<tbody>
<tr>
<td>Above 100</td>
<td>29.1</td>
</tr>
<tr>
<td>50-100</td>
<td>7.5</td>
</tr>
<tr>
<td>10-50</td>
<td>22.8</td>
</tr>
<tr>
<td>5-10</td>
<td>9.4</td>
</tr>
<tr>
<td>2-5</td>
<td>14.9</td>
</tr>
<tr>
<td>1-2</td>
<td>8.9</td>
</tr>
<tr>
<td>0.5-1</td>
<td>4.7</td>
</tr>
<tr>
<td>Below 0.5</td>
<td>2.6</td>
</tr>
</tbody>
</table>

Source: Hungarian Central Statistical Office, January 1999

2 For an overview of the municipal system see Csefkó, Ferenc, A helyi önkormányzati rendszer (Dialog Campus; Budapest-Pécs, 1997). For a critical assessment, see Pálné Kovács Ilona ’Regional Development and Local Government in Hungary’ in Hajdú, Zoltán ed. Regional Processes and Spatial Structures in Hungary in the 1990s (MTA RKK Pécs, 1999) and Pálné Kovács Ilona ’The Basic Political and Structural Problems in the Workings of Local Governments in Hungary (MTA RKK Discussion Papers No. 14., Pécs, 1999).
The average size of municipalities is 3100 ha, and the average population per municipality has 3269. Although there is an incredible amount of variance in this respect in Europe, but generally speaking two patterns emerge. The Northern European pattern is characterised by larger local governments. The Southern model is characterised by smaller settlements, but with fewer competencies. The Hungarian system, in contrast to these, is characterised by a large number of small municipalities with great competencies. The Hungarian figure for the number of inhabitants per municipality is amongst the smallest on the continent, as the following table illustrates:

<table>
<thead>
<tr>
<th>Country</th>
<th>Inhabitants / municipality</th>
</tr>
</thead>
<tbody>
<tr>
<td>Austria</td>
<td>2 970</td>
</tr>
<tr>
<td>Belgium</td>
<td>15 313</td>
</tr>
<tr>
<td>Denmark</td>
<td>16 569</td>
</tr>
<tr>
<td>Finland</td>
<td>815</td>
</tr>
<tr>
<td>France</td>
<td>1279</td>
</tr>
<tr>
<td>Greece</td>
<td>1 132</td>
</tr>
<tr>
<td>Netherlands</td>
<td>23 104</td>
</tr>
<tr>
<td>Ireland</td>
<td>42 720</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>3 300</td>
</tr>
<tr>
<td>UK</td>
<td>112 980</td>
</tr>
<tr>
<td>Germany</td>
<td>7 000</td>
</tr>
<tr>
<td>Italy</td>
<td>7 121</td>
</tr>
<tr>
<td>Portugal</td>
<td>26 372</td>
</tr>
<tr>
<td>Spain</td>
<td>7 000</td>
</tr>
<tr>
<td>Sweden</td>
<td>29 900</td>
</tr>
<tr>
<td>Hungary</td>
<td>3 269</td>
</tr>
</tbody>
</table>


The relatively small size of municipalities causes many drawbacks in terms of development. It usually means that guaranteeing even the most basic physical and public infrastructure would be considered an inefficient use of development resources. Due to the lack of local employment and other opportunities there is a strong tendency amongst those who are young or better trained to move away from these smaller municipalities. Due to their size it also seems unlikely that they will be able to initiate large enough development projects, and thus might be excluded even from future support from the structural funds of the EU, unless they join with several other smaller settlements to form common municipalities. Although we can expect this tendency to strengthen only after accession, some signs are already present, such as the creation of Micro regional Development Associations (kistérségi társulás) between municipalities. These associations initiate and manage investments jointly, but do not merge their public administrative capacities. They are formed on a voluntary basis, and as experience
from the nineties suggests, most of them were formed in order to access funds. Most important amongst these were Phare, Sapard and the National Employment Fund. This tendency suggests that in case a minimum limit is set for eligibility for structural funds after Hungary’s accession, these associations might be the solution for the problems of small municipalities who otherwise would not be able to initiate investments of critical size separately.

One important problem here is that these bottom-up initiatives bring in a new element into the official public administration hierarchy of the state between the levels of the Small Region and the Municipality, as this table illustrates:

<table>
<thead>
<tr>
<th>NUTS I</th>
<th>state</th>
</tr>
</thead>
<tbody>
<tr>
<td>NUTS II</td>
<td>7 regions</td>
</tr>
<tr>
<td>NUTS III</td>
<td>19 counties / 22 county right towns</td>
</tr>
<tr>
<td>NUTS IV</td>
<td>Micro regions</td>
</tr>
</tbody>
</table>

Official micro regions are statistical units of the official hierarchy (NUTS IV), whereas micro regional development associations are not.

Local elections in municipalities take place every four years. Each municipality elects a mayor and a body of representatives. This body controls the mayor and approves the budget of the municipality. The executive tasks rest with the mayor, and in larger towns with his deputies.

Seven associations of municipalities exist in Hungary, including two general associations, the Association of Municipality Self-governments (TÖOSZ) and the Association of Hungarian Local Governments (MÖSZ). The other five associations are specialised ones (counties, county rank cities, small towns, villages and small villages). In spite of this fragmented association structure around 30% of all municipalities do not belong to any organisation.

‘Towns with county rank’

As a characteristic element of the Hungarian system of public administration, municipalities called ‘cities with country rank’ have a special status. These entities originate from the German and Austrian systems of public administration, where they are known as kreisfreie Städte, and fulfill roughly the same role as in Hungary. Lately, they have also appeared in the Polish public administrative hierarchy. Although with few exceptions they perform the role of county seats, they do not belong to the territory of their respective counties. There are 22 such towns in Hungary, 19 of them are seats of counties, plus three other important towns. They

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3 See Répássy, Helga „Kistérségi társulások Magyarországon” In Falu-Város-Régió 10/9. As well as Szőrényiné Kukorelli Irén „A kistérségi szervezédek életképessége, a térségmenedzserk szerepe” In Horváth-Rechnitzer (eds.) Magyarország területi szerkezete és folyamatai az ezredfordulón (MTA RKK; Pécs 2000)

4 For legal status, see Act No. LXV/1990 on local self governments, as well as Act no. LXIII/1994.
simultaneously host the public institutions that perform the duties of both the local government and the county. The citizens of these towns elect their own assembly, they do not vote in county elections which makes these cities almost another 22 little counties themselves.

2. Local government financing and future EU support

As we have seen, one of the guiding principles of community support from the European Union is additionally. Although to varying degrees, but all sources of community funding require own contributions from end users. Hungarian municipalities will be one of the most important groups that will benefit from these sources, that is, if they can prepare themselves in advance and guarantee a number of prerequisites. It is therefore important to take a look at local government financing and the potential for co financing in the future for EU financing.

The budgets of municipalities in Hungary are generally very tight. In general they are heavily under funded. Their annual budget is not even enough to finance the responsibilities that are legally prescribed to them. They have the task of financing the functioning of hospitals, schools, cultural and sports centres, maintaining public utilities, etc. Often they set up non-profit publicly owned companies to handle tasks such as cleaning the streets, sewage treatment, solid waste collection, and so on. (Construction and maintenance of all roads and streets inside of the city are the responsibility of the municipality. Roads outside the municipalities belong to the state.) Often their annual budget is not enough to meet these requirements. In most EU states the tasks that are fulfilled by the municipalities in Hungary (such as running schools and hospitals) are carried out by the state.

Only about 30% of the development budget of municipalities comes from local sources. About 70% of the resources come from ministries in the form of grant schemes. Central ministries set priorities for development in their own fields, and then issue grant schemes to which municipalities can apply. If their application is successful, they receive resources from the ministry for investments in the appropriate field. The reason why this centralised system survives is twofold. First is the obvious tendency of the central government to control local investments from above. Secondly there is a general fear in society that in case development funds were decentralised to empower local governments, they would be used by the local elite for prestige consumption. Curiously enough, conversations with municipality mayors reveal that this concern exists not only at the central level, but is shared equally on the local level as well.

This system has several drawbacks. First there is the obvious lack of fiscal autonomy and the dependency of self-governments on the central government. Second is the fact that is that the system makes it possible for the political forces in control of the central government to ‘influence’ the local level. Since Hungary seems to be developing into a two-party system on the national level, it seems quite likely that whichever party will be in control the national level will be likely to favour local self-governments ran by the same party, and disfavour those led by the other side. Even if such bias did not exist in reality, the system provides enough ground for the opposition to claim alleged bias. Such allegations have been numerous in recent years, the most exposed of them being the case of the capital Budapest itself, where a Liberal-Socialist city leadership is fighting a bitter war over financing with the Conservative central government. The situation has been made even worse by a decision in 1994 to allow mayors to run in parliamentary election. This has made the local and the central level even more interlinked, and it has further politicised local decision-making. Thirdly, local governments in charge of municipalities are unable to design long term investment strategies, as the source of funding for their plans is insecure. This will become especially evident in the case of longer...
term planning for support from the structural funds. As Pires\(^5\) warns, in the present Hungarian system municipalities must first meet the running costs of various local facilities and utilities, and they can only spend on development \textit{if} there is a remainder. In most EU member states municipalities have a fixed amount that they can and \textit{must} spend on investment! According to Pires this ratio in Portugal for instance is 40%!

The grant schemes system also has a detrimental effect on local democracy. When a candidate in a municipal election is running a campaign, he/she is unable to identify priority areas for development in case he is elected. If he were to do this, he would not be acting responsibly, as he cannot be certain that the development priorities of the municipality will correspond to the development priorities set by the ministries. In reality these are more likely not to correspond. As a consequence the candidate is unable to safely tell whether or not there will be financing available for the locally proposed development projects. Conversations with municipality leader suggest that the way candidates handle this situation is by not making any concrete proposals, or by making only very general ones – in effect is the emptying out of local democracy.

Local governments can raise revenues locally in the form of taxation. Amounts raised locally have increased considerably since the introduction of the tax system after transition. This is especially true of the peak years of privatisation and foreign investments. Income generated from local taxation increased by 73\% in 1996, by over 30\% between 1997 and 1999 and by 18.5\% in the year 2000. However, the revenues generated by municipalities themselves still average only about 30\%. The rest of their budgets have to come from the state. Opportunities to raise taxes include two main forms, enterprise tax and tax on buildings, as well as several other, less important forms. Almost 4/5 of local tax revenues come from enterprise tax. The following is a summary of local tax revenues since transition:

\(^5\) p. 38 Pires, Luis Madureira, op. cit.
Table 4: Local tax revenues according to different types, mn Hungarian Forints (1993-2001)

<table>
<thead>
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<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Enterprise tax</td>
<td>21 652</td>
<td>27 257</td>
<td>38 472</td>
<td>66 130</td>
<td>93 133</td>
<td>124 316</td>
<td>171 476</td>
<td>186 822</td>
<td>226 084</td>
</tr>
<tr>
<td>Tax on buildings</td>
<td>2 294</td>
<td>3 255</td>
<td>4 145</td>
<td>8 313</td>
<td>10 752</td>
<td>13 056</td>
<td>16 629</td>
<td>22 262</td>
<td>26 138</td>
</tr>
<tr>
<td>Personal communal tax</td>
<td>530</td>
<td>516</td>
<td>747</td>
<td>1 492</td>
<td>1 980</td>
<td>2 698</td>
<td>3 422</td>
<td>4 557</td>
<td>4 933</td>
</tr>
<tr>
<td>Tax on land</td>
<td>474</td>
<td>710</td>
<td>813</td>
<td>1 296</td>
<td>1 717</td>
<td>1 811</td>
<td>2 262</td>
<td>3 099</td>
<td>3 221</td>
</tr>
<tr>
<td>Tax on tourism</td>
<td>510</td>
<td>745</td>
<td>768</td>
<td>1 505</td>
<td>1 878</td>
<td>2 147</td>
<td>2 396</td>
<td>2 942</td>
<td>3 125</td>
</tr>
<tr>
<td>Enterprise communal tax</td>
<td>1 222</td>
<td>1 200</td>
<td>1 075</td>
<td>1 174</td>
<td>1 178</td>
<td>1 161</td>
<td>1 354</td>
<td>1 192</td>
<td>1 174</td>
</tr>
<tr>
<td>Tourism tax on buildings</td>
<td>407</td>
<td>309</td>
<td>363</td>
<td>461</td>
<td>524</td>
<td>637</td>
<td>824</td>
<td>892</td>
<td>1 032</td>
</tr>
<tr>
<td>TOTAL</td>
<td>27 089</td>
<td>33 992</td>
<td>46 383</td>
<td>80 371</td>
<td>111 162</td>
<td>145 826</td>
<td>198 363</td>
<td>221 766</td>
<td>265 707</td>
</tr>
</tbody>
</table>

Source: Ministry of Finance, 2002

Generally speaking the municipalities that can raise a larger share of their resources themselves are the larger cities that have a more affluent population and often large foreign investments. There are enormous differences in terms of the ability of different municipalities to raise their own revenues. According to some calculations, especially those of Pires, as many as half of Hungary’s municipalities might be unable to provide the necessary own contribution when applying for structural funds support. As these municipalities are precisely the ones that are the poorest and most in need of development, it would be a great injustice to exclude them from the benefits of European integration. Such an unfortunate situation would also jeopardise popular support for EU membership. The Hungarian public financial system is therefore greatly in need of reform!

In the medium term there is an obvious need to reform the system of municipal financing in Hungary. There is a need to create greater financial autonomy for local governments. They must be made completely accountable for the use of public money by their populations. This entails both transparency and adequate financial resources to enable them to make their own investment decisions. There is also a need to make central government transfers to local governments more reliable and stable. The number of different sources must be limited, priorities must remain constant, and the ratio of support that comes as labelled must remain as low as possible.

It would also be beneficial to reduce the number of small municipalities. In a democratic framework of course it would be impossible to forcefully merge settlements into municipalities the way this was carried out in communist times, but their spontaneous, bottom-up merger would be highly desirable. The minimum amount of support set in the case of support within the framework of the different measures in the National Development Plan might have a cata-

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6 Pires, Luis Madureira, op. cit. p. 38
7 On this, see p. 159 Horváth, M. Tamás Helyi közszolgáltatások szervezése (Dialog Campus; Budapest-Pécs, 2002).
lytic effect at least on the settlements’ willingness to co-operate, as we have seen in the case of the micro regional development associations.

3. Counties

The traditional meso level territorial unit in Hungary is the county. The present Hungarian county system consists of 19 counties plus the capital, Budapest.

Map 1: The counties of Hungary

The average population of a county is around 4-500 thousand, and together with their average size this puts them at NUTSIII in the Eurostat classification.

Counties have long history in Hungary, although not necessarily in their present form. There are strong sentiments attached to the counties on the part of significant parts of the population. It is widely believed that the county system of Hungary is “one thousand years old”, the “first in Europe”, “founded by King Saint Stephan” and that there are great sensitivities attached to it. A small retrospective analysis reveals the fact that not only are counties too small and empty for strong emotional attachment from their inhabitants, but they have also changed considerably historically.

The traditional county system of Hungary was greatly modified at the end of World War I, after the Treaty of Trianon, as part of the post-war Versailles settlement. Hungary lost large parts of its former territories to all of its neighbouring countries. The role of two-million-strong Budapest greatly increased in a state that became considerably smaller than it had previously been, with less than ten million inhabitants. The dominance of Budapest has remained a problem for Hungary ever since. Whereas in the historical Hungarian Kingdom the central

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8 Megye in Hungarian.
role of Budapest was counterbalanced to some degree by large regional centres such as Bratislava (Pozsony/Pressburg, today in Slovakia), Zagreb (today in Croatia), Kosice (Kassa, today in Slovakia), or Cluj (Kolozsvár/Klausenburg, today in Romania). After the Treaty of Trianon these regional Centres remained in the neighbouring states, and the ones that stayed within the new borders of the state remained so close to the border that much of their former hinterland (scope of influence was lost), as in the case of towns like Szeged, Pécs, or Győr.

This situation was made worse by the closed nature of state borders in Central Europe throughout the 20th century, which made the division of formerly organic regions complete by cutting of the two sides of the border from each other. The Treaty of Trianon resulted in the modification of not only the frontiers of the state, but also of the counties. Several of the present counties in Hungary are amalgamations of what remained of several historical Hungarian counties. An example of this can be seen in the case of today’s Győr-Moson-Sopron county, which used to be three different counties before the treaty of Trianon: Győr, Moson, and Sopron. Considerable parts of these former counties were lost to Austria and Slovakia after the Treaty of Trianon, and what remained of them was brought together into a single county. The same effect can also be seen in the case of Szabolcs-Szatmár county on the Romanian border, or in the case of Vas county, also on the Austrian border. The change sometimes had an effect even on the borders between counties within the country itself, as in the case of the border between Zala and Veszprém counties.

The consequence of these changes is that the historical boundaries of these counties have changed so significantly, that their traditional nature by now is doubtful.\(^{10}\)

The effects of the Treaty of Trianon on the territorial and administrative structure might be summarised as follows:

1. Absolute dominance of the capital vis-à-vis the rest of the country.
2. Regional centres too small (and without much of their traditional hinterland) to generate organic regions around them.
3. A large number of amalgamated counties, often without strong attachment to them by their populations.

During the decades of Communism regional development became an instrument of the planned economy. In place of spatial economic planning it simply became a tool for the implementation of the general economic plan applicable to the whole country. Precisely as a result of the failure of the planned economy there is still some resentment in Hungary towards regional development and the regional approach of the EU. Some believe that it is unnecessary to reintroduce any kind of planning when the country has just emerged from 50 years of the unsuccessful planned economy.

Local communist party chiefs who were in charge of party units organised on a county level controlled the counties during the period of Communist rule. These offices were then used to create strongholds of power that were popularly known as ‘little empires’. The county was a

\(^{10}\) An interesting historical consequence of the border changes of Trianon is the creation of the Austrian Land (and EU region) Burgenland, which had not existed prior to Trianon, but was created instead from the western halves of the Hungarian Sopron and Vas counties. Until 1982 the area was known as Wartgebiet (“Guard Area”), and only afterwards was it renamed Burgenland (“Land of Castles”). According to the Austrian constitution the capital of the Wartgebiet used to be Sopron – a town across the border in Hungary, known to Austrians as Ödenburg. GDP per capita in today’s Burgenland is one of the lowest in both Austria and in the EU, but it is still considerably higher than that of Western Hungary.
territorial unit with a reasonable degree of power and autonomy, even from the central authority and within the communist party.

After transition it became obvious that the administrative system of Hungary would have to be altered. After forty years of centralised rule it was clear that the autonomy of local governments was to be returned. Free municipal elections were held in the autumn of 1990 for the first time. The official name of the elected body of municipalities and counties was changed from the Communist-sounding ‘Councils’ (Tanács) to ‘Self Governments’ (Önkormányzat) to symbolise the move towards greater autonomy and sovereignty of these bodies. The term sounded somewhat alien in the Hungarian language at the time, but it was an important step and has become quite accepted since. The symbolic act was then followed by granting legal rights to these self-governments, but, as we shall see, lack of financing has prevented these county and municipality self governments from fully exercising these rights. Prior to transition over 70 percent of all investment was state investment. This figure decreased to around 40 percent after transition with the creation of the private economy. However, of the roughly 700 billion HUF spent on investment each year in Hungary today, around 95% are controlled by the central government, and only 5% by local and county self governments.

There was the question of what to do with the counties. The first freely elected (centre right) government passed Act LXV on Local Governments, which greatly reduced the power of counties to a role of merely co-ordination and the maintenance of public infrastructure. Part of the reason for this was that while the first free parliamentary elections had been won by the centre right, local elections, which followed half a year later, were won mostly by the opposition Socialists and Liberals. It was intended as a deliberate attempt to crush the power concentrated in the hands of the post-communist elites in these counties, but has had the unintended long-term consequence of reducing the authority of the counties to such a level today that in reality they have very little budgetary or other means today. An obvious vacuum was created at the meso level of government between the municipality and the central government, which the central government could use without opposition to create its own power base during a process that might be characterised as deconcentration rather than decentralisation.

Among the duties of the counties are running educational institutions (some of the secondary, special and vocational schools), and health institutions (county hospitals). Other duties include running specialised institutions, county libraries, archives and natural reserve areas. Their budgets are frequently not enough to finance these heavy duties. Counties also prepare plans and projects in areas such as wastewater management, roads, etc, and try to convince the government to finance them.

The county has an elected County Assembly (Megyei Közgyűlés) that is elected during the municipal elections for a four-year term. The assembly then elects a county president with simple majority, also for a four-year term. The county president then proposes two vice-presidents who are then elected with simple majority as well. They lead an administration called the County Self Government (Megyei Önkormányzat), consisting of a staff of about 50-60. Most of the income of the county is not locally generated, and cannot be foreseen or planned. Most of the support coming from the central state is labelled, and counties have no rights of taxation.

As a prescription of Act XXI. of the year 1996 (see later) the county sets up a so-called County Development Council (CDC), which is responsible for the development of the county’s regional development plan and for the management of the county’s development funds.

11 Megyei Területrendezési Terv

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There are three development funds that are administered by these CDCs. They are:

1. The *Targeted Decentralised Fund*\(^{12}\): about 120 million HUF were available in the year 2001 per county for appropriation between local governments for the purpose of renovating buildings and repairing roads owned by the local government.

2. *Territorial Equalisation Fund*\(^{13}\): about 90-100 million HUF per county were available in this fund. The amount can be used to support local governments in the development of public utilities, and business enterprises that create new employment opportunities locally. Support can only be given to municipalities that are considered to be in a disadvantageous position according to criteria laid down in a parliamentary decree. These funds are transferred to the CDCs by the Ministry of the Interior from the central budget.

3. *Targeted Fund for Regional Development*\(^{14}\): about 140 million HUF were available in the year 2001 for general regional development purposes in the county. This fund is also transferred to the CDCs by the Ministry for Agriculture and Regional Development, from the central budget.

It is clear from the above the amount of money available for regional development for the CDCs is very small. In addition, only the third fund, the Targeted Fund for Regional Development can be utilised relatively freely, the first two are labelled for specific purposes at the central level. Counties are required to design their own development programmes. These are modelled on EU practice to some degree; they include a SWOT analysis, strategic objectives, priorities and measures derived from them. However, these programmes contain no costs calculations of budget! There is never any element of co financing in the support funds administered by the CDCs, and partnership or concentration are not requirements either.

The entries in the central budget available for use by CDCs are distributed by Parliament according to the criteria of GDP (inversely) and population. This basically indicates that the principle behind the system is centred on simple equalisation, rather than the stimulation of local initiatives.

The only locally generated source of revenue for county governments is a certain percentage of local personal income tax (25% in 2001). Cities with county rank, which are administratively not part of the counties, are not legally obliged to contribute to the county budget. Their absence from the county also deprives the latter from an important source of revenue, as they are the places where the highest amounts of personal income tax are generated in the county. Revenues generated by institutions owned by the county government are reinvested into the running of the institutions themselves, and are almost never sufficient enough for this purpose.

For development initiatives above 200 million HUF CDCs play no role. In such cases local governments apply directly to the relevant ministries, which greatly strengthens centralisation.

The involvement of the small regions in the County Development Councils tilts the direction of development efforts towards fairness and away from economic rational, efficiency, or innovation.

\(^{12}\) Céljellegű Decentralizált Előirányzat

\(^{13}\) Területi Kiegyenlítiő Alap

\(^{14}\) Vidéki fejlődés Célenőrnyzat
4. ‘Deconcentrated state organs’

One of the most worrying aspects of the Hungarian public administration hierarchy is the existence of so-called deconcentrated state organs (dekoncentrált szervek). These are administrative institutions carrying out sectoral roles. They are organised mostly according to counties, but sometimes according to other territorial organising principle. They can sometimes be regional, but even in these cases the concept of region does not correspond to the official NUTS II regions. The most important aspect of these deconcentrated organs is that although they are organised according to lower level territorial units, they are subordinated to sectoral ministries rather than county or regional self governments.

The historical background of their existence is that a non-integrated conglomerate of these units of public administration occupied the space left vacant by the dissolved County Councils after transition. Many have been created since. There is now such a multitude of these organs, that no one can tell exactly how many there are. Most ministries have several such networks, and their total number is estimated to approach a hundred. Shockingly, there is no legal provision for how county administration and these deconcentrated state bodies should work together in carrying out their work and development aims! Relations are dependent upon personal goodwill, and are often simply non-existent or outright conflictual or competitive. This fragmented structure is unable to fulfil the role of intermediating between the local and the national level. In spite of its description as being ‘deconcentrated’, it is in fact an instrument of strong centralisation. It basically ensures nation-wide control by the central government. In addition, the set-up has also resulted in fragmentation according to sectoral priorities and interests. Naturally, some services on have to be carried out by the central government also on the local level. The supervision of schools and the organisation of defence are just two examples. However, other tasks currently fulfilled by the deconcentrated state organs might also be organised on a local or regional level. Not only would this be adherence to the important principle of subsidiarity, but it would also have the beneficial effect of increased efficiency and local democracy. Table 4.4.1. is a far from complete list of deconcentrated state organs. There would be a great need to first compile a summary of the ever increasing number of deconcentrated bodies, and secondly to decide which of these tasks could be fulfilled locally, and which ones need to be continued at the state level.

Deconcentrated state organs often have different scopes of operation geographically, which increases the confusion. There is great rivalry between cities in a given area for hosting one of these deconcentrated ministerial bodies, which both increases dependency on the central government and leads to bitterness between neighbouring cities.

If one looks at the level of organisation for deconcentrated bodies and public utilities (which are often privately owned), they are organised on a variety of levels ranging from national through regional to county:
Table 5: Levels of organisation for deconcentrated state organs and public utilities

<table>
<thead>
<tr>
<th>Organised on the level of counties</th>
<th>Organised on the level of regions (mostly not the official NUTS II planning-statistical regions!)</th>
<th>Organised on a national level</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employment agencies</td>
<td>State railroads and state railways directorates</td>
<td>Highways management</td>
</tr>
<tr>
<td>Land registries</td>
<td>Telecommunications</td>
<td>Higher education</td>
</tr>
<tr>
<td>Statistical Office</td>
<td>Postal services</td>
<td></td>
</tr>
<tr>
<td>Tax agencies</td>
<td>Electricity services</td>
<td></td>
</tr>
<tr>
<td>Police forces</td>
<td>Water management</td>
<td></td>
</tr>
<tr>
<td>Judicial courts</td>
<td>Universities (in terms of scope)</td>
<td></td>
</tr>
<tr>
<td>Offices of the agricultural ministry</td>
<td>Regional marketing directorates</td>
<td></td>
</tr>
<tr>
<td>Employment training centres</td>
<td>Sapard offices</td>
<td></td>
</tr>
<tr>
<td>Health service</td>
<td>Tourism committees</td>
<td></td>
</tr>
<tr>
<td>Traffic supervision</td>
<td>PMO National Office for Regional Development regional directorates</td>
<td></td>
</tr>
<tr>
<td>Veterinary services</td>
<td>NARD Phare offices</td>
<td></td>
</tr>
<tr>
<td>Agricultural health services</td>
<td>Customs</td>
<td></td>
</tr>
<tr>
<td>Retirement funds</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Telecommunication supervision</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Environmental supervision</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Healthcare</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Work safety supervision</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Educational standards supervision</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Agricultural health</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Prosecutors</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

It is clear that co-ordination between these state organs is an urgent need. A reform of this system will have to be carried out, which on the one hand will ensure co-ordination between the management and development functions of these organs. On the other hand there is a need to tie the functioning of these organs to the democratically elected meso or local level self governments, according to the principle of subsidiarity. Not only would this increase democratic control, transparency and accountability, but it would also harmonise the work of these organs with the priorities of the elected bodies. This would ensure that their functioning is directly relevant to the needs and choices of the population locally.

Any serious attempt at decentralisation should involve an in depth re-examination of the roles played by the deconcentrated state bodies.
5. Regions

According to Horváth there are several parallel processes which have been instrumental in regionalisation in the last decades. First were ethnic and cultural movements that demanded greater autonomy for themselves within nation-states. Second was the rationalisation of the functional elements of the Keynesian welfare state. The articulation of regional economic and other interests has also played a significant part. Finally the common regional approach of the European Union has also played a significant part in the development of regional thinking. Sharpe adds two further reasons. One is the development of transport and communication in our globalising world, which has influenced people to accept larger and larger geographical units as the scope of their identity. Finally the last reason is that fact that conflicts and rivalry related to economic power and socio-economic equality take on an increasingly geographical aspect.

In Hungary in the nineties there were hardly any bottom-up efforts for the creation of regions. There was a brief attempt towards the end of the first government’s term to create regional entities headed by so-called “Commissioners of the Republic”, based on the one-time historic post of the “főispán”, but this post was soon scrapped. With the process of EU enlargement becoming more concrete in the middle of the 1990s, it became evident that the objectives, priorities, tools and instruments of her regional policy have to be harmonised with the functioning of the EU’s regional policy. Act no. XXI of the year 1996 on Regional Development and Spatial Organisation was designed with EU regulations in mind. In defining regions to be supported it takes into account the criteria of the EU and the principles of the NUTS system. The Act introduces two different definitions of ‘region’: the so called planning and statistical regions, which are unitary in size and serve as a basis for regular statistical data collection; as well as development regions, which are more loosely organised units. (Examples of the latter are Lake Balaton and Budapest. The different geographical and functional scope of the two types of regions is in itself a reason for serious concern. It makes the system confusing and incoherent, it results in an unclear distribution of competencies, parallel structures, conflictual communication, and other contradictions.)

The Act prescribes that national and lower level documents of regional planning must be harmonised together in a so-called National Plan for Regional Development. The National Plan for Regional Development specifies seven planning and statistical regions at NUTS II level. There were serious debates in the 1990s about how the borders of the newly created regions should be drawn. The end result was a set-up where with the exception of the Central Region they all include three counties each. This central region includes the capital, Budapest, and its immediate environment, the county of Pest.

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15 Horváth, Gyula „Decentralizáció és a régiók – kelet-közép-európai nézőpontből” in Gyula Horváth & János Rechnitzer (eds.) Magyarország területi szerkezete és folyamatai az ezredfordulón. (MTA RKK; Pécs, 2000) p. 61
17 A területfejlesztésről és a területrendezésről szóló 1996 évi XXI. törvény
18 Tervezési.statisztikai régió
19 Fejlesztési régió
20 Országos Területfejlesztési Koncepció.
Map 2: The geographic distribution of planning and statistical regions in Hungary\textsuperscript{21}

\textsuperscript{21} For the English translation of the Hungarian names of the regions, please see Appendix I.
Looking at this table it is easy to see how strictly keeping to the borders of the counties has resulted in a very homogenous regional distribution. Only the Central Hungarian Region,
which includes the capital, stands out from the other data due to the fact that its geographical area is considerably smaller and its population is much higher. Disregarding this Central Hungarian Region, in almost no EU member states is there such a homogenous regional distribution.

The introduction of regions (both statistical and development) was a new development in Hungary. As it has already been mentioned, the traditional unit of territorial administration was the county. Hungary had never had historical regions in the sense that some other states such as Germany, Italy or Austria had. Yet they were not totally without precedent. Geographical notions such as "Transdanubia" or the "Great Plains" were often used, although these never had any administrative or even statistical significance. A long period of debate therefore preceded the creation of these regions. Legislators were rather unsure about where the borders of the regions should be, and what principles should be applied in deciding this question. It is evident from the outcome that they were also not ready to make these regions the dominant meso level units that would fill in the vacuum between the local level and the central government.

The set-up is clearly a compromise between those in favour of creating new regions, and the strong forces trying to hang on to the counties. The decision actually creates the regions and therefore meets related expectations from the side of the EU. But it does so without eliminating the counties, or even changing their role in the administrative hierarchy. Counties are still elected units, but weak in terms of power and resources. Regions are non-elected and dominated by the counties, but are likely to have a future, even if not necessarily in the present form. Such a set-up has both advantages and disadvantages. Firstly, all regions include three counties, resulting in equal weight amongst them. Secondly, all regions have external state borders. This might be of advantage as it makes it possible for the regions to have a “foreign policy”, to be involved in EU cross-border co-operation, and later in Interreg. The third advantage of the set-up is that there are three Western and three Eastern regions, with the Central Region in the middle. Given the income and wealth disparities between eastern and western Hungary, and given the rivalry between the two halves of country, such a set-up might be advantageous when translated into bargaining power. This holds true even though it might be argued for instance that for the internal cohesion of the two regions north of Lake Balaton it would have made sense to create a single Northern Transdanubian region. This case was argued for by several experts throughout the nineties. This would have upset, however, the delicate balance between East and West on a national level.

This actually brings us to the first one of the few key problems with the current set of regions. These regions are rather incoherent in terms of geography. No one would even try to justify their borders with a geographic logic. It would also be very hard to argue that they make much sense in terms of human geography. There are definitely no cultural attachments to them. In certain cases they cover more or less historically or socially coherent areas (an example of this could be the region of Southern Transdanubia), whereas in other cases they are outright peculiar (for example in the case of the Northern Great Plains region, where it would be incredibly difficult to argue that anything apart from law connects the western and the eastern parts of this region). The most positive aspect of these regions is that they exist at all, and that they have been more or less accepted by their respective population. Except for one or two odd cases (most notable the status of Budapest), there have been very few attempts to try and alter these borders. Of course this is partly due to the fact that they are made up of counties, which acts to support the status quo. The other reason is that the regions are very

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22 See for instance page 420-423 in Horváth, Gyula *Európai Regionális Politika* (Dialóg-Campus; Budapest-Pécs 1998).
weak both in terms of administrative competencies and financial resources, which means that very few sentiments are attached to them. Although their role is expected to increase in the future, for the time being planning and statistical regions are often little more than groupings of three counties each.

Regions for the time being have no elected bodies. They have what is called a Regional Development Council (RDC), the operational organisation of which is the Regional Development Agency (RDA). There has been a lot of debate about the constitution of the Regional Development Councils. Currently they are made up of representatives of the counties, the cities with county rights\(^\text{23}\), as well as ministries. The example of the Regional Development Council of the Western Transdanubian Region demonstrates the make-up of an RDC:

\begin{table}[h]
\centering
\begin{tabular}{|l|l|}
\hline
Council & 22 members  \\
 & County Development Councils 3 members  \\
 & Government Ministries 10 members  \\
 & County Right Towns 5 members  \\
 & Small Regions 3 members  \\
 & Regional Tourism Committee 1 member  \\
 & Members without voting rights:  \\
 & 50 members  \\
 & Other invited participants:  \\
 & 80 participants  \\
\hline
4 Committees & 4 x 15 members:  \\
 & County Development Councils 3 members  \\
 & County Right Towns 5 members  \\
 & Small Regions 3 members  \\
 & Regional Development Council 4 members  \\
\hline
12 Working Groups & 12 x 9-12 members:  \\
 & equal numbers of experts from the 3 counties  \\
\hline
\end{tabular}
\end{table}

Source: www.westpa.hu

The three representatives of the County Development Councils in the Regional Development Councils are in practice the Presidents of the County Self Governments. The Presidency of the RDC alternates between the three of them, or is shared out according to political compromises. The Regional Development Council also includes ten representatives of central government ministries, as follows: Transport and Water Management, Agriculture and Rural Development, Interior, Economic Affairs, Social and Family Affairs, Environment, Health, Education, Youth and Sports, Finance. The President of the Regional Tourism Committee is also

\(^{23}\) ‘City with county right’ is an official category in Hungarian public administration that basically denotes the largest and most important cities within counties. These are not necessarily county seats.
appointed by the Minister for the Economy. As a consequence of this set-up the central government has 11 of the 22 votes in this regional body.

Regional Development Councils have been widely criticised for their make-up, namely that national ministries have too much influence in these bodies, which contradicts the principles of subsidiarity and decentralisation. The set-up has been defended by claims that the representatives appointed by the ministers are in fact locals if they are the heads of the so-called deconcentrated organs of the ministries (e.g. employment agencies, public roads management units, etc.). On the one hand this is often not true. Also, this defence is problematic: the heads of the deconcentrated organs are under the control of the ministries, and they are often political appointees. By collecting the previously fragmented conglomerate of deconcentrated organs in the RDC, there is a real possibility that regions would become mere extensions of the central government. This is not to mention the fact that deconcentrated organs have different functional scopes geographically, and these often do not match that of the statistical-planning region (as in the case of the Regional Tourist Boards for example).

The make-up of the RDCs also contradicts the principle of partnership. Small regions that form the NUTS 4 level in the Hungarian administrative nomenclature are also highly underrepresented. While all three counties and all major cities have representations in the RDCs, the 60-70 small regions within the region are represented by only three votes on the Regional Level. Social partners are also excluded from the RDCs. Here there is the additional problem that due to the fact that membership in the Chambers of Commerce and Industry and other chambers is no longer compulsory, the question of representation arises.

Another problem with the RDCs is that due to the lack of substantial decision-making competencies and a high enough budget, the region remains an empty shell. The presidency of the RDC alternates between the county presidents, and the decisions within the RDCs are often outcomes of compromises between the three counties where regional resources are shared out equally between the counties for separate investments in order to avoid the negative effects of the obviously existing rivalry between the three counties. It is obvious that County Development Councils have no interest in pooling their competencies and resources in order to strengthen the bargaining power and the authority of the region. Even if they were to do this, they would not have enough financial resources to do this, as these are controlled by central government ministries. The functions that the regions could take on the other hand are carried out by the deconcentrated organs of the ministries.

Due to the lack of real resources for development the regional presidents (who are also county presidents themselves) are dependent on lobbying for resources at the one out of the two major national political parties they represent.

The Regional Development Agencies are operational organisations of the Regional Development Councils. Their role is to prepare materials for decision-making in the Council. They are also responsible for the implementation of these decisions.

The seven Regional Development Agencies currently have around 20 staff each, and a very limited budget of about 50 million HUF per year, which does not enable them to do very much.

24 One incident that had some repercussions in Brussels as well took place in August 2000, when Hans Beck, the head of the Brussels Office for the Representation of Hungarian Regions heavily criticised the weightlessness and the central control of regions in the Hungarian Parliamentary Committee for Regional Development.
Act no. XXI. specifies five different levels of regional planning: national, regional, county, small region (kistérség), and municipal (település). Out of these only three levels have elected bodies: the national, the county and the municipal level. As far as the NUTS system is concerned, the Hungarian administrative hierarchy is related to it in the following way:

### Table 8: The NUTS hierarchy in Hungary

<table>
<thead>
<tr>
<th>Name</th>
<th>NUTS category</th>
<th>Size km²</th>
<th>Inhabitants</th>
<th>EU15 average size for NUTS category km²</th>
<th>EU average population for NUTS category</th>
</tr>
</thead>
<tbody>
<tr>
<td>National</td>
<td></td>
<td>93 030</td>
<td>10 135 000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Region</td>
<td>I</td>
<td>68 100</td>
<td>4 238 000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>County</td>
<td>II</td>
<td>13 300</td>
<td>1 450 000</td>
<td>23 000</td>
<td>1 803 000</td>
</tr>
<tr>
<td>Microregion</td>
<td>III</td>
<td>4 650</td>
<td>517 000</td>
<td>5 400</td>
<td>410 000</td>
</tr>
<tr>
<td>Municipality</td>
<td>V</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: EUROSTAT 1995c, Hungarian Central Statistical Office

There are increasing differences between the economic powers of the different regions. There has always been an East-West divide in terms of affluence, and the Communist period has preserved it. Generally speaking Budapest is the economic engine of the country, producing about 40% of the country’s GDP with a population that is less than 20% of the total population. It forms the central region with what is basically its hinterland. The extreme dominance of Budapest in terms of education, technological development and culture has been a problem for a long time. Even though the population of the capital has ceased to increase, this is almost completely due to middle class suburbanisation in smaller and middle-sized towns that by now have completely merged with Budapest in all but legal status. The other two relatively advanced regions are the two regions in the northwest of the country, Western Transdanubia and Central Transdanubia. They have benefited greatly from their geographic closeness to the EU, from their position on the Budapest-Vienna axis, their superior infrastructure, and last but not least the significant foreign direct investments they have received in the second half of the nineties (mostly from Germany, the US and the Netherlands). The remaining four regions of the country are considerably underdeveloped in relation to the above. Not only are they less affluent, but they also have a worse infrastructural situation, higher unemployment, and so on. The following table illustrates disparities within Hungary:

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25 In practice in Hungary a single settlement is a single municipality. The Hungarian word for municipality, település, actually means settlement. In the practice of several EU member states (e.g. Scandinavia, Portugal) several settlements together form a single municipality. This is Hungary is greatly resisted by the newly acquired independence of the settlements. It is therefore often said jokingly that Hungary is made up of „3500 independent little republics” (i.e. the number of settlements in the country).
### Table 9: Regional disparities within Hungary in 2000

<table>
<thead>
<tr>
<th>Region</th>
<th>GDP per head PPS as % of EU average (100 %)</th>
<th>Share of total Hungarian GDP (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Budapest</td>
<td>88</td>
<td>39</td>
</tr>
<tr>
<td>Central Hungary (Közép-Magyarország)</td>
<td>71</td>
<td>41,8</td>
</tr>
<tr>
<td>Central Transdanubia (Közép-Dunántúl)</td>
<td>47,1</td>
<td>10,8</td>
</tr>
<tr>
<td>Western Transdanubia (Nyugat-Dunántúl)</td>
<td>53,1</td>
<td>10,8</td>
</tr>
<tr>
<td>Southern Transdanubia (Dél-Dunántúl)</td>
<td>37,1</td>
<td>7,5</td>
</tr>
<tr>
<td>Northern Hungary (Észak-Magyarország)</td>
<td>32,6</td>
<td>8,6</td>
</tr>
<tr>
<td>Northern Great Plains (Észak-Alföld)</td>
<td>32,5</td>
<td>10,3</td>
</tr>
<tr>
<td>Southern Great Plains (Dél-Alföld)</td>
<td>36,7</td>
<td>10,2</td>
</tr>
</tbody>
</table>

Source: Hungarian Central Statistical Office, 2000

At roughly 53% of the EU average Hungary qualifies for aid from the Cohesion Fund. Almost all of the above NUTS II regions also qualify for Objective 1 support under the Structural Funds. The only exception might be the Central Region. Due to the high GDP growth in Hungary and the ever-increasing dynamism of Budapest this region has since grown over the critical 75% of EU average. As a result it might soon not be eligible for support under Objective 1. Several suggestions have been put forward. Some suggest that Budapest should be an independent region on its own right, as are several capitals of Europe (such as Prague, Bratislava, Vienna and others further a field). Others have proposed merging the central region with another, less prosperous region in order to decrease the average. So far none of these suggestions have had any effects, and signals from the EU delegation have warned Hungarian decision makers about changing the statistical set-up. The set-up described so far therefore looks set to remain in place, at least until a comprehensive reform of regional divisions that disregards the sensitivities of counties.

### 6. The question of decentralisation in Hungary

There is little consensus amongst authors on sub-national governance about whether regionalisation is a zero sum game, or whether it creates extra benefits. Those who argue the first case, such as Marks\(^{26}\) and Sandholz\(^{27}\), claim that the powers of the central government will decrease as newly created regions will tend to bypass it and turn directly to European institutions. This greatly increases the importance of regions and regional bodies. The often quoted

\(^{26}\) Marks, Gary ‘Structural Policy and Multi-level Governance in the European Community in Cafruny, Alan & Rosenthal, Glenda (eds.) The State of the European Community II: Maastricht Debates and Beyond (Lynne Rienner; Boulder, Colorado, 1993)

example in this respect are the German Bundesländer, who had succeeded in introducing the Committee of Regions into the European architecture, and they opened up representations in Brussels. Other scholars, such as Moravcsik\textsuperscript{28}, stress the ability of the national government to ‘gate-keep’, or control the access of sub-national entities to EU decision-making bodies.

Accession countries, although they were still not member states, accepted to adopt the acquis in a process of “self-Europeanisation”. This process was supported by the general electorate and the various elites of these countries. The only issue that broke this consensus was the question of agriculture. Throughout the accession process it was the central government that almost monopolised the process of negotiating with EU bodies (first and foremost the Commission). In this respect government in the accession states maintained a much stronger gate-keeping role than other governments in EU member states. Throughout the accession process almost all EU-related news that had reached the population at large were about the government’s negotiation efforts in Brussels vis-à-vis the Commission. Subnational entities were non-existent or lacked competencies and political power in Central Europe.

As Dieringer et al.\textsuperscript{29} point out, the first wave of decentralisation came to Central Europe with transition. This is when real autonomy was restored to local municipalities, at least in political, legal and administrative terms, if not necessarily in financial terms. The central government became stronger, and local governments also benefited, but the meso level came out of this phase as a looser.

A second wave of decentralisation and principle of subsidiarity came to the region in connection with the EU’s regional policy. It was strongly related to the Objectives of the structural funds, the NUTS system and the strong financial incentives as these states realised the additional source of funding they were about to gain from structural and cohesion funds. It looked for a long time as if this time round the meso level would be the main beneficiary of the process.

The question of the public administrative structure in Hungary remained unanswered in Hungary throughout the nineties, even prior to the question of EU integration and the management of the structural funds. The two most burning questions have been that there is no real meso level of governance between the local level and the central government, and that the sovereignty of the local government is threatened by the dependency on the centre. These issues actually question the essence of self-governance in Hungary. The fact that EU accession makes these problems topical only helps to create awareness and debate around a question where otherwise the central government encounters no resistance or strong local or regional initiatives.

Initially the distribution of competencies between the central level and the regions was unclear. Throughout the 1990s the need for regionalisation in the Central European states and in Hungary was evident. It was widely believed that this would take place before Hungary’s entry into the European Union. Numerous professional articles were written in this period that took it for granted that regionalisation would sooner rather than later take place. Horváth\textsuperscript{30}, for example, mentions two important factors that have not yet been mentioned that would benefit from decentralisation. Firstly, Hungary carries our two thirds of its foreign trade with countries where there is a decentralised structure in place (i.e. Italy, Germany and Austria).

\textsuperscript{28} Moravcsik, Andrew ’Why the European Community Strengthens the State: Domestic Politics and International Co-operation’ (Harvard University Working Paper No. 52; 1994)

\textsuperscript{29} Dieringer, Jürgen and Lindstrom, Nicole The Europeanisation of Regions in EU-Applicant Countries – a Comparative Analysis of Hungary, Poland, Romania and Slovenia (CEU; Budapest, 2002) p. 11.

\textsuperscript{30} Horváth „Decentralizáció…” pp. 67-69
Secondly, the decentralised organs of ministries could benefit greatly from economies of scale in case they covered larger territories than the counties. In some areas it is becoming clear that the size of a county is simply too small. The labour market operates on more of a regional level (if not national or increasingly international) rather than a county level, yet employment agencies are still organised on a county basis. The same holds true for road management, which is also still organised on the level of the county. One could also mention the statistical office, the treasury, etc.

When at the end of the nineties the focus of Phare began to shift towards accession, it was widely believed that once Hungary enters the EU, the structural funds would be managed by the seven regions created. Therefore the Phare structure was set up with seven Regional Operational Programmes in mind. Three of these were to be funded by Phare, the others (the so called “mirror regions”) from Hungarian state budget resources.

Then around the time of the Nice summit this direction of development changed dramatically. As it was becoming evident, due to the speed of the accession negotiations and the success of the summit itself, that accession would take place some time around the year 2004, several factors changed. Both to the Commission and the Hungarian government the amount of time available before accession was beginning to seem short. In case Hungary was to enter the Union in 2004, she would benefit from the structural funds for the remaining two years of the 2000-2006 financial programme period. In order to achieve maximum absorption capacity in these two years from the date of accession, Hungary would have to draw up a National Development Plan in advance. The elaboration of this plan was begun in February 2000, and it was still not completed in spring 2003. The administrative framework of the management of the structural funds is a national competence in the European Union. It was therefore up to the Hungarian Government to decide how it intended to organise it after entry in Hungary. The question therefore arose about who should manage the funds? One possibility was that the regions should. Due to earlier decisions, when there was reluctance to hand over substantial competencies coupled with an appropriate budget to the regions, it was felt that the administrative potential in the regions was not developed enough to be able to manage the structural fund after entry. They had neither the staff, nor the experience to do so. Another possibility would have been the counties. Many argued that “counties are traditional and organic forms of administration in Hungary”, and they should form the basis of decentralised structural fund management after entry. However, it was obvious that counties were too small for this purpose, and that the Commission would not have the capacity or the will to negotiate and correspond with 20 such small units within Hungary. In addition to this, the counties themselves have also only had very limited staff and financial resources for development in the 1990s. They have had almost no experience with the management of EU funds. Therefore the counties could easily be ruled out as a possible level of management.

The third possibility was centralised management of the funds. This choice was based on the assumption that only central government ministries had enough staff and the appropriate experience in funds management to carry out the tasks of managing European Union funds in the 2004-2006 period. This argument seems to be supported by the highly centralised present system of managing development resources in Hungary. So it seemed that due to the tradition of centralisation and the reluctance to strengthen the regions, the Hungarian central government was keen on a centralised future management of the structural funds.

This seemed to coincide with a change of opinion within DG Regio in Brussels. Whereas previously the Commission had been implying future management of the structural funds on a regional level, as it became more and more clear that as many as ten candidate countries could be accepted at the same time (some as large as Poland!), the number of regions would also increase enormously (with more than 50 new regions being added). At the Berlin summit in
March 1999, where the future budget for accession countries was drawn up for the 2000-2006 period, they had expected a maximum of six new member states in that period. Now they had to realise that given the number of new regions to come into the EU, and their underpreparedness in many ways, it would overwhelm the Commission to have to negotiate with so many regions in this period. Calculations by DG Regio in the Second Report on Economic and Social Cohesion indicate that in an enlarged Union of 26 member states, even taking into account the fact that the average of member states itself drops significantly, some 70 regions would still be below 75% of this average, and would therefore be eligible for support under Objective 1. This compares to 46 in a Union of 15. The Commission therefore also opted for the safer option of centralised management. In countries where full decentralisation had not happened yet, as in Hungary, informal pressure was put on the central government to adopt a centralised approach and prepare centralised Sectoral rather than decentralised Regional Operational Programmes. In countries where substantial decentralisation had already been carried through, such as the Czech Republic or Poland, these processes were ignored by the Commission, and once again a centralised approach was taken. As a consequence, the National Development Plans and the Operational Programmes of the Central European states all look highly similar, and are all centrally controlled. It is clear from retrospective interviews that the main principle of the Commission in this period was “simplicity leads to efficient absorption”.

The outcome of this coincidence of the interests between the Commission and the central government in Budapest (lead by conservative Fidesz at the time) was that the direction of development changed drastically, and it was decided that there would be 5 SOPs and no ROPs in Hungary. The five SOPs, to be managed by ministries at the central level, were to be the following:
- Human Resources Development,
- Economic Competitiveness,
- Infrastructure,
- Agriculture and Rural Development,
- Regional Development.

There was little pressure on the Hungarian government to come to any final conclusion as to how it would want to manage the funds. For the closing of the negotiation chapter on regional development was still open, and the only part of the institutional set-up Hungary had to name in order to close the chapter were the managing authorities. It suddenly became clear, that although the principles of subsidiarity and decentralisation, important underlying principles of the EU itself, were frequently mentioned to the candidate states, in reality the common institutions of the EU put too little pressure on these states to make them carry out a real reform of their administrative systems.

Interestingly enough, most decision-makers in Hungary still agreed that decentralisation and regionalisation were unavoidable in the medium run. Central figures of both the Conservative and the Socialist-Liberal governments often spoke out publicly about the need to develop regional structures, and even about the possibility of dissolving the counties altogether. Many believe that the second National Development Plan after 2007 would provide a chance for a real regionalisation of the administrative structures.

31 These are the very words used by a leading member of the Commission’s negotiating team with Slovakia and the Czech Republic in an interview for this study.

32 Including István Stumpf, the minister responsible for the PMO during the Fidesz term, as well as Mónika Lamperth, Socialist minister of the Interior, and Socialist Prime Minister Péter Medgyessy himself.
The Socialist-Liberal government actually came to power in 2002 with the agenda of administrative reform. Mónika Lamperth, the Minister of the Interior, actually set out a timeline for decentralisation. According to this a consultative body has been set up, under the chairmanship of political science professor Attila Ágh. The task of this body, constituted of various experts of public administration, is to draw up the theoretical principles of decentralisation in Hungary until 2004. This would be followed by a period of codification in 2004-2005. According to this timeline the first regional elections are to be held in 2006. Were elected regional bodies to replace the currently exiting planning and administrative regions, this would amount to almost a second wave of democratisation similar in importance to the transition process in 1989 that created the democratic structures at the central level. The work of the consultative group can be considered to be an important step forward, although they have been criticised for focusing too much on aspects of public administration and not enough on the economic development aspects of regionalisation. Although the question of regionalisation has been in the air for almost a decade now, one aspect of the discourse that has always been missing was the practical implementation of economic subsidiarity. With serious decentralisation in mind there is a need to discuss what elements of economic development is best carried out at a regional level, and what elements should remain centralised.

There are many theoretical as well as practical considerations related to implementing substantial subsidiarity in Hungary. The most important question to be asked is what would be the meso level of government that would be best at carrying out different functions at this level. The following possible models might be imagined:

- **Non-elected region, elected counties.** The present set up. Does function.
- **Elected region, no counties.** Progressive but generates a lot of resistance.
- **Elected region, elected counties.** Little resistance but large and costly administration.

An example of the three counties in a region successfully and efficiently working together in a region and for a region would greatly enhance the willingness in society to accept the regionalisation of the country.

**The geographical boundaries of the regions**

There have been numerous proposals for the geographical boundaries set-up of regions within Hungary both from experts and from politicians. The first thing that has to be stated is that shifting the borders of the existing regions creates the risk that society at large will consider them temporary institutions. On the other hand principles such as internal cohesion definitely induce the necessity of making corrections. It seems quite likely, however, that the present statistical-planning regions will form the basis of any future regional structure. It is possible to imagine certain changes between the boundaries.

Much depends of course on whether or not counties themselves and the present three counties per region system survive.

Another question is the future of Euroregions, and whether or not we shall see in the future the creation of EU regions that involve the territory of two or more member states and cross former borders between nation states. An interesting case in this respect is the Euroregion formed by the three counties of Western Transdanubia and Burgenland. Should this Euroregion be filled with more content after Hungary’s entry, it would serve as a valuable example of how to restore the organic spatial structure of areas that were torn apart by the politics of the twentieth century.
7. Local Electoral Results and Politics

The Hungarian political scene has undergone a consolidation in the fifteen years since transition. A very large number of political parties appeared during transition, some of which merged, others split, and a great number have disappeared. The electoral results in local elections reflected these tendencies, but certain conclusions can still be drawn from the results. The most important such conclusion is that local elections are regarded by large segments of the electorate as part of national politics rather than local. There are several reasons for this. Firstly, local elections are held ¾ of a year later than national elections, and voters often choose to express their disappointment with the new government in local elections. Secondly, party identification at the national level is very strong in Hungary, and this is translated into local politics, which often mimics national politics in rhetoric and symbolism. This is further enhanced by the fact that local politics is rather empty. As it has already been emphasised, due to the fact that local finances are excessively dependent on the central level, and this leaves little room for real debate on local issues. Local media, organised at the county level, is either commercial, or dependent on the local government for financing, and therefore fails to provide an adequate forum for local political debates. As a result of all these factors, local politics is mostly derived from national politics, and local elections are seen by many as a chance to punish the incumbent government. Regionalisation could help a great deal in developing a polity that is large enough to provide a real forum for local politics, with an inherent logic of checks and balances guaranteed by the local elite in the leading towns of regions.

The current political set-up is dominated by two major political parties, the left wing Socialists and the right wing Fidesz. Two smaller political parties also feature, but their support nationally is either just around or under 5%, which is the limit for representation in the national parliament. These parties are increasingly losing their representation in local governments as well, as Hungarian politics gradually consolidates towards a two party system.

The current government is led by the Socialists since the last national elections in 2002. After their parliamentary election victory in the spring of 2002 the Socialist spent heavily to try and convince voters to elect socialist representatives in local elections in the fall as well. This strategy was successful, and it broke the long established trend when voters turned out not to punish the incumbent government for the first time. What emerged instead was a landslide victory for the Socialist, who gained control of all but three counties, and came out on top in local governments as well.

A few geographical patterns have already established themselves:

1. The Socialists are stronger in larger cities and towns, including Budapest.
2. Fidesz is stronger in rural areas and smaller towns.
3. Fidesz is strongest in the westernmost counties bordering Austria, while the Socialists are strong in almost all other counties.
Part II:
Institutions in the fields of Economic restructuring and development / labour market and social dislocation - Hungary

Zoltán Pogátsa
1. Privatisation, economic restructuring and development

In discussions about the velvet revolutions of 1989-90 it is often mentioned that changing a political system and an economic system simultaneously is a unique experiment. Comparisons are drawn with other former dictatorial regimes, where a political transformation took place, but never together with an economic one. However, this double transformation is not even the most striking aspect of the economic transition of Central and Eastern European states. What is most interesting is the fact that never before had capitalism come about through design rather than gradual, organic development. Those orchestrating economic transition in Hungary and the rest of the region had to face the task of building a local version of a market economy that in other countries had come about as a result of decades and even centuries of gradual evolution. Elements of a capitalist set-up, including regulations on the forms of enterprises, a two tier banking system, a stock exchange, and so on, had to be put in place one after the other through legislation within a very constrained period of time.

The first and most important prerequisite for a market economy is private ownership. One of the first things that communist states tried to do when they came to power was to try and eliminate it by nationalising industries. With the exception of certain segments of the economy in Eastern Bloc countries (such as the Polish agricultural sector, or some small traders in Hungary), almost all of the economy was in state hands during the communist period. At the end of the eighties and the beginning of the nineties, turning back towards a market economy, these states were then faced with the enormous task of returning once again to a system of predominantly private ownership. Two fundamental questions arose in Hungary as well as in other countries of the region. Firstly: who would become the new owners of former state assets? Secondly: how much are these assets worth? It was inadequate to allow the market to decide the buying price of state owned firms, since there was no market, and it was exactly the ultimate aim of the project to create one. One time Polish minister for property transformation, Janusz Lewandowski was quoted for having said: “privatisation is when someone who does not know who the real owner is, and does not know what it is really worth, sells something to someone who does not have enough money”. The latter is a reference to the lack of capital domestically.

One immediate answer to the question of who would become the new owners could have been their previous owners, but in Hungary rather quickly decided after a certain amount of debate that to reprivatise to previous owners from before the Communist era would be inefficient on the one hand, and ambiguous on the other. Only in the domain of agriculture was a certain degree of reprivatisation or compensation introduced. It has to be mentioned, however, that other ex-socialist states went further in their attempts to reprivatise assets.

The second obvious answer would have been the existing population of Hungary. Unfortunately it was clear that in a communist state that was virtually bankrupt, there were very few domestic entities that would be able to buy the assets of the state. The total amount of savings, even with loans, would have enabled the population to purchase only a fraction of the assets of the state to be privatized. Although privatising to one’s own population seemed like a fair solution, given the hardships these societies had to endure, it seemed like an impossible choice. This is not to say that countries had not tried. Stark and Bruszt have compiled very enlightening accounts of how the Czech government under Vaclav Klaus devised a very intricate scheme to privatise through vouchers and hypothetical index point auctions to try and distribute property amongst its population and create a market at the same time. The Polish government went even further in voucher type privatisation, and in fact most governments in the region experimented with voucher type privatisation at one time or another. (It has to be added that by the second half of the decade all of these countries gave up such attempts, and turned to direct privatisation to foreign investors.)
In Hungary the situation was different. First of all, the country had been more open to foreign investors than the rest of the Eastern Bloc. Secondly, by the end of the Communist era, Hungary had accumulated an enormous foreign debt, making her one of the most indebted nations in the world on a per capita basis. The process of accumulating debt had begun in the early seventies, and it was continued in the eighties, when Hungary joined the IMF and the World Bank to be able to continue to borrow. This process of becoming more and more indebted towards mainly German and Japanese creditors, discussed from a very interesting perspective by Matolcsy, has been instrumental in bringing the communist system to its knees by helping it go bankrupt. At the end of the eighties, when the government was no longer able to borrow from western governments and financial institutions, privatisation seemed like a convenient source of revenue to repay some of these debts and thus reduce the burden of interest repayment. Direct sale of assets to Western investors therefore seemed like the obvious answer. It was believed that these firms would bring additional advantages, such as new technology, management skills, research and development, etc. Therefore the Hungarian privatisation process was focused on attracting foreign direct investment from the very beginning. A certain amount of so-called spontaneous privatisation had taken place prior to the tightening of the regulations surrounding privatisation. There was also an attempt to provide some loans to would-be entrepreneurs in the home economy, which according to Kolosi has helped a significant number of today’s entrepreneurial elite to take off. However, privatisation to foreign firms constituted the bulk of revenues from privatisation throughout the nineties.

Foreign firms can come to own assets in another economy through a number of means: privatisation, greenfield investment, mergers and acquisitions, as well as buying equity. These means can result in very different positions structurally within the economy. From the point of view of economic restructuring what is interesting here are the processes of privatisation and restitution:

<table>
<thead>
<tr>
<th>Process</th>
<th>Form</th>
<th>Institution Responsible</th>
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<tbody>
<tr>
<td>Privatisation</td>
<td>Government sponsored loans with favourable conditions</td>
<td>Commercial banks</td>
</tr>
<tr>
<td></td>
<td>Foreign direct investment</td>
<td>Hungarian Privatisation and State Holding Company Limited</td>
</tr>
<tr>
<td>Restitution in the agricultural sector</td>
<td>Restitution coupons</td>
<td>Central state, later Stock exchange</td>
</tr>
</tbody>
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At the beginning of the privatisation process the state sector made up more than 85% of the Hungarian economy. Since then the situation has turned round completely, with almost four-fifths of the Hungarian economy now in private hands, which is a higher ratio than in many OECD countries which had never been part of the socialist block.

In 1990, a total of 1,859 state-owned companies with a book value of HUF 1,670 billion (nearly USD 26.5 bn calculated at 1990 exchange rates) awaited privatization. By 31 December 2004, only some 137 companies with a book value of HUF 702.4 billion (USD 3.9 bn) operated the supervision of the State Holding Company, according to preliminary, not audited data. From this group hundred percent, majority or minority stake of 38 companies is to remain in long-term state ownership, as stated in Act XXXIX of 1995, the so-called Privatisation Act.

33 http://www.apvrt.hu
At the beginning of the process state-owned enterprises had first to be transformed into companies so that their operational rules could meet the requirements of a modern market economy. Parallel to the successful transformation and supervision of the majority of state-owned companies, due to the increasingly competitive market conditions there were numerous firms that suffered significant losses and had to face winding-up or liquidation procedures. Market-based privatisation is slower and less popular than the voucher system applied by other countries, but it has proven to be more efficient. The method entails that the value of the assets is defined by the market. Instead of acquiring assets free of charge, the investor - selected through a tender and risking a significant amount of capital - has greater responsibility and interest to run the acquired property efficiently.

According to the Act, the State Holding limited ensures that all investors have an equal chance to acquire state assets through the application of tendering procedures. In order to keep the process transparent and under control, the Privatization Act and the Rules on Tendering stipulate the regulations and formal requisites of tendering. During evaluation of bids, besides the price, aspects like guarantee undertakings, development and employment obligations, as well as environmental clean-up and protection are also important. The Hungarian Privatization and State Holding Co. (abbreviation in Hungarian: ÁPV Rt.) is an economic organisation established by Parliament as a joint legal successor of the former State Property Agency and Hungarian State Holding Co. with Act XXXIX of 1995 on the sale of enterprise assets owned by the State /Privatisation Act/. It is a limited shareholding company, owned exclusively by the Hungarian State. Its share is registered and not negotiable. Apart from the individual rights of the Government, the founder, rights at ÁPV Rt. are exercised by the Minister of Finance, acting as the party exercising the Shareholder's rights. The framework and rules of the tasks of the company are primarily defined in the Privatisation Act, the annual budget acts of the Republic of Hungary and the resolutions of the Government. The activities of ÁPV Rt. are audited by an independent auditor too on the basis of a proposal of the State Audit Office. The Government is obliged to prepare a report on ÁPV Rt.’s activities for Parliament each year to which the SAO report must also be attached.

The entrepreneurial assets assigned to ÁPV Rt. chiefly comprise companies, state enterprises, purchased, withdrawn- or transferred assets, arable land and other real estate, state bonds, financial assets, receivables, and liabilities. In order to perform its duties, ÁPV Rt. also has its own assets, its registered capital amounting to HUF 9.7 bn. These assets are managed separately from those assigned to its control.

Investment promotion in Hungary is carried out by an agency called ITDH (Hungarian Investment and Trade Development Agency). Founded in 1993, this non-profit organisation is controlled by the Ministry for Economy and Transport. It has regional offices within Hungary and representations in the major capitals of the world (37 ITDH offices and 9 representative offices in 32 foreign countries as well as 16 regional offices in Hungary). The quality of ITDH's services has often been criticised by investors, as has its ability to cooperate smoothly with the Ministry.

Hungary also had an enormous network of industrial parks. These are specially delineated areas, usually on the outskirts of cities and towns, where first (infrastructure, energy) and second (financial, consulting, etc.) generation services are provided to investors. There are more than a hundred such parks, but only a few dozen have real activity, and out of these, only a handful can be considered full-fledged industrial parks. Inactivity characterises the majority of such parks, so much so that the Ministry of Economy has even started a programme to revoke the title “industrial park” from non-functional sites. Many industrial parks had functioned as “customs free zones” in the period before EU entry, but the competition policy of the EU no longer makes this possible. The World Investment Report of UNCTAD even car-
ried a case study of Hungary as a prime example of using custom free zones to promote investment and local economic restructuring. Custom free zones were especially important in promoting investment in manufacturing.

A similar network of institutions are economic clusters. Whereas in other countries these were mainly spontaneous, bottom up groupings, in Hungary they were created top down. Strongest amongst them is the Pannon Automobile Cluster, but other networks also exist in the areas of electronics, thermal baths and wellness, food, furniture, etc. Unfortunately clusters have not achieved a breakthrough in terms of fostering the development of supplier links around multinational firms. This is partly due to the fact that clusters have been under funded.

There are two institutions within the regions that are responsible for economic restructuring and development. The Regional Development Agencies (RDAs) are the administrative units of the seven Regional Development Councils (RDCs). Their legal form is not defined clearly, as are their scope and efficiency of functioning, which can be very different. Some RDAs are more proactive and autonomous in their strategies, other just passively serve the RDCs. The financial means of Regional Development Agencies for economic developments are quite limited. The other regional institution is the Regional Development Holding (RDHs), a deconcentrated organ of the Ministry for Economy and Transport. Apart from administering the grant schemes of the ministry, RDHs theoretically act as state equity companies, buying into firms as owners. In practice this role has been very minor, mainly due to the inadequate regulatory framework of this activity.

2. Labour market services and social dislocation

The need for labour market services is a relatively new phenomenon in former socialist states. During communist times the state guaranteed full employment, a job for everyone, even if this meant an extreme waste of community resources spent on unnecessary jobs, and great inefficiency due to the inflexibility of the fact that employees could not be fired if they underperformed. During the period of transition, however, as output fell and numerous state owned enterprises went bankrupt, unemployment became a problem, reaching its pinnacle at around 13% in 1993. There was an urgent need to create a labour service network to respond to these unfavourable developments. With the inflow of foreign investment on the one hand, and sizeable groups leaving the labour market on the other hand, unemployment stabilised in the late nineties at an acceptable level, and labour market services were no longer in the focus of public attention.

The system of labour market services is organised on the level of counties in Hungary. The Ministry of Employment and Labour has deconcentrated organs called County Labour Centres in the county seats. These are controlled from the central ministry in terms of administrative hierarchy and budgeting, and have no formal ties with elected county or regional institutions. They are responsible for maintaining a database of the unemployed in the county. Their operation can be characterised by many weaknesses:

- First of all, they deal mostly with people of low qualification level. Unemployed persons with intermediary educational levels are secondary in importance, and those with higher education qualifications are by and large ignored by the system.

- Secondly, the current system is focused on the unemployed population. The institutions have no knowledge whatsoever of either those who are not inactive, or actively seeking work but not registered in their system.
Thirdly, County Labour Centres have no formal knowledge of the structure of the labour market, and do not have the task of designing employment forecasts on any level of administration.

Fourthly, these institutions are isolated from both the demand (business) and supply (educational and training) sides of the labour market. They are also sheltered from the social policy which takes care of the long term unemployed, and which is mostly administered by local governments.

The weaknesses of the present system are especially imminent in light of the fact that Hungary suffers from one of the lowest participation rates within the EU. This fact is hidden by the relatively favourable unemployment statistics (6% compared to the EU average of 9%), which prevents the extremely inadequate labour service system from becoming a visible problem and a target for reform. The unemployment levels of certain social groups (the Roma, the elderly, the disabled) is critically high, and the unemployment levels of other groups (women, youth) also give reason for concern.

There was a brief attempt to reorganise labour centres on a regional level in 2002, but this was soon aborted. The network is coordinated at the level of the Ministry by the Public Employment Centre, which also acts as a methodological centre.

There is also a network of institutions called Regional Retraining Centres, organised on the regional level. These are responsible for delivering trainings in order to make it possible for individuals to re-enter the labour market. The legal background of these training centres is Act no. IV / 1991 on Job Promotion and Unemployment Services, Act no. LXXCI. / 1993. on vocational training, as well as Act no. CI. /2001 on Adult Education, and ministerial order no. 4/2002 (X.17) on the creation of the Public Employment Centre. Until 1998 they were subordinate deconcentrated organs of the Ministry for Labour. Between 1998 and 2000 they were subordinated to the Ministry for Social and Family Affairs, then between 2000 and 2002 the Ministry for Education. Since the review of the governmental structure in June 2002 they are subordinated to the Ministry for Employment and Labour Affairs through the Public Employment Centre.

A key problem with both the Labour Market Centres and the Regional Retraining Centres is the fact that their efforts are in a vacuum, in the sense that they do not operate within any “imaginary” subnational labour market unit. In the absence of regional, county or micro regional employment pact or employment forecasts their activity does not have a clear territorial focus or relevance.

As far as labour market harmonisation is concerned, this area has seen a very troubled development. After transition, one of the issues the countries of central Europe had to decide was the extent to which partnership should become the everyday practice of economic and other policies. The corporative models of European welfare states were often quoted as models or examples, but in reality, most of these states, Hungary included, never really decided upon a definite pattern in this respect. The Socialist government between 1994 and 1998 was very keen on partnership in principle and rhetoric, but during the process of privatisation it largely excluded its social partners from negotiations with foreign buyers, the end result of which was Hungary’s position in the global economy, competing with low wages, weak labour market regulations and weak trade unions. The Fidesz government between 1998 and 2002 went even further, temporarily suspending the work of the central body of interest representation, the so-called Council for Interest Representation, a tripartite forum with representation by the government, labour unions and employers associations. This forum was renamed the National Labour Council, and it was in essence sidelined, with its competencies limited to questions related to labour-related issues. When unions decided to oppose a radical increase in
the minimum wage (fearing it would weaken Hungary’s competitive position globally, resulting in large-scale losses of jobs), the Fidesz government decided to impose its will upon them unilaterally. Unions were seen by Fidesz as associated partners of the main opposition party, the Socialists – not without reason, as a number of union leaders actually sat in the Socialist parliamentary fraction. After the 2002 elections the returning Socialists took great care to re-install consultations with social partners, renaming the central forum the National Council for Interest Representation, and extending consultations to questions of taxation and the budget. Consultations with social partners in other areas, such as the environment, or minority affairs, were just as random and unrefined in character.

The National Council for Interest Representation is a forum for interest representation and harmonisation. The three participating sided include the Government (represented by the Ministry for Social Affairs and the Ministry for Economic Affairs), the trade unions and the employers’ associations. The council has the right to negotiate in the following areas:

- The Labour Code, vocational training, workplace protection, labour control, employment and unemployment services, social security,

- agreements on the national minimum wage, bank holidays, national level collective agreements,

- the rights of social partners.

There exists a network of County Labour Councils as well. These are weak bodies without a legal personality, created by Act no. IV. /1991 on Job Creation and Unemployment Services. Participants include employers, employees and the persons representing self governments, with 3-6 representing each side. The functioning of these Councils is made possible by the staff of the County Labour Centres.

The task of the County Labour Council has the following tasks:

- negotiating in the areas of employment and training,

- cooperating with the County Development Councils,

- makes underlying decisions about the use of the Employment Fund in the county,

- monitors the usage of the Employment Fund in the county,

- initiates and reviews short and long term programmes related to the employment situation in the counties.