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**Restructuring and Regional Policy
in Hungary**

by

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INTRODUCTION

The socio-economic model that prevailed until recently in Hungary and the other East European countries was characterized by a policy of extensive development focussing on quantitative growth. The structural concentration and central, state control of both the society and the economy was very strong. Consequently the system of political and economic decision-making was also centralized while the production and redistribution of incomes depended on central (state level) distribution. The development policy of this concentrated structure and centralized decision-making system had a unified and strong set of priorities mainly representing macro-level and sectoral interests and paid very little attention to regional expectations and characteristics. This kind of policy quite naturally resulted in a polarized regional structure with advantages accumulating in some areas (primarily in the towns, industrial centres and particularly in the capital) and increasing disadvantages in others (like rural, agrarian areas). It must be pointed out, however, that most of the accumulating advantages were strongly relative, deriving from and serving, at the same time, the prevailing structure and mechanism.

As it turned out later, the existence of the more highly developed areas also depended on a very frail foundation; the key element of our development policy was industrial growth concentrated in some priority towns or regions which acted as poles, also determining the development of the third sector. As a result, we have several regions in the country with significant industrial bases. At the same time, industrial development in some areas was uneven, one-sided or restricted to a couple of large companies, in this way making the region and the development of industrial potentials too strongly dependent on them. Therefore these „poles” of development are best described by: uneven regional structure, exaggerated concentration of capital and organizations, lack of market forces and relations, low adaptiveness to and interest in changes.

There can be no doubt that all this was not only and primarily the result of a distorted regional policy but the materialization of the general economic mechanism (model).

The relativity of regional advantages and the seriousness of disadvantages suddenly came to light in the mid-80s; both external and internal factors played a part in the revelation of the socio-economic crisis. This new situation was created by factors like the second wave of the Hungarian economic reform, the enforcement and real operation of market relation (strict monetary policy, the introduction of the new

tax system, a more active exchange-rate policy and a series of restrictive measures), as well as the recognition that the change of the economic system was inevitable. When mining, metallurgy and the heavy industry in general got into a crisis, the areas previously acting as „poles” of development suddenly became depressed areas.

The decrease of production could not be avoided and opening new jobs for the unemployed became a dramatic regional and sectoral issue: *sectoral*, because capital and labour should be streamed into new or already efficient sectors, industries and *regional*, because the elimination of loss-producing activities takes place at different rate in the various regions and the mobility of the population is very limited (housing problems, lack of infrastructure in areas that, in principle, could take up more people).

The economic policy pursued so far, including regional policy – although the latter never really got integrated into the economic policy which reserved the right to exclusively determine the socio-economic processes at the macro level with just a slight distinction among the sectors – got into an openly manifest crisis by our days. The particular regional manifestation of this crisis – besides the other regional problems – is the emergence of the depressed and economically backward areas. The proportion of these areas is quite significant both within the population and the economic potential. It is very difficult to define their extent, all the more so, that the interpretation of the related terms is not unambiguous. The interpretation used in government or parliamentary decisions includes only a minimum of economically backward areas i.e. 19% of all settlements in the country, the residence of some 450,000 people. Depressed zone problems are more acute in the Northern industrial region (*Miskolc* city and surroundings) and in South-East Transdanubia (the urban area of *Pécs* city).

Among the economically backward areas we find mostly rural regions where agricultural production is hardly profitable and there is no or little opportunity for any other kind of economic activity, the infrastructure is undeveloped or absent, the erosion of the population (aging, moving away, other structural distortions) is very strong. These areas are on the periphery of the society and most of the settlements that belong here have less than 500 inhabitants.

Depressed areas are primarily the centres of heavy industry (mining, metallurgy, etc.) where recession is expected to last long even in the auxiliary industries. The economic structure of these areas was developed in terms of the previous model, therefore adjustment to the new conditions requires a dramatic change in structure, high but perhaps temporary unemployment and other severe social and economic hardships.

These crisis regions do not simply mean a regional, social or economic problem, but also a delicate political issue. As illustrated very clearly by the example of the

developed European countries, the term equal opportunity is a category of the human rights in the emerging young democracies. In Hungary today housing is one factor that hinders the realization of equal opportunity.

A study analyzing problems related to backward regions was published in No. 7 of this series in 1988. The present study focusses on structural changes in depressed areas taking as an example the region around the towns *Pécs* and *Komló*. The problem of depressed areas viewed as an issue of regional policy is relatively new in Hungary. This is the reason why we extend our analysis well beyond the actual problems of the *Pécs-Komló region* and raise more general questions related to structural changes at regional level.

SIGNS OF DEPRESSION IN THE URBAN AREA OF PÉCS

When giving an overall picture of the economy of Baranya three characteristic sectoral features of the structure can be pointed out:

- the mining industry has a determinant role;
- it is a traditionally agricultural area;
- light industries and food processing are significant beside the mining industry.

With knowledge of the present economic and market conditions these three characteristics themselves make it evident that the economic potential of the area may get into a critical position. If to the above mentioned things we add that the agricultural sector is a dominant economic base in an area where conditions of productivity are unfavourable on the two third of the county's territory, and industry is considerably concentrated in the Pécs-Komló area, which is the „core area” of the county, then we get a relatively precise picture of the problem in the county's economic structure, and the pressing necessity of the structural change.

As a result of prevailing economic policy priorities, plans for regional and urban development have so far regarded Pécs and Komló, as well as the surrounding settlements, that is the conurbation of Pécs as the engine of the county's development, because of concentration of economic resources and income deriving capacity of the productive sectors, and that the diffusion of these productive forces can kick-start the economies of the county's microregions. Economic policy courses in the four decades of socialist development encouraged these efforts, even justified them, insomuch, that the average income of people living here far exceeded the national average. These facts, as well as other statistical data could cause it to be forgotten that there was a danger in the foreseeable future of collapse of the regional development based on the mining industry and declining sectors of world economy and that a well-considered structural change is necessary. This danger, otherwise, was pointed out by researchers in the mid-seventies when they saw the social and economic decline of the depressed areas in Western Europe.

At the beginning of the eighties indications of the regional crisis increased. The radical fall-off in the dynamics of the productive sectors, and the slowing down of economic growth became a characteristic trend, particularly in the county of Baranya. Whereas in the period between 1973-1978 the productivity dynamics in Baranya was 116.3% (lowest among the counties), at the beginning of the eighties between 1979-1984 a fall-off in production was noticed. The 94.7% index was second in the counties' league behind the production fall-off in Budapest's industry. The 2.7%

uplift in 1987 proved to be only a passing tendency of the decade, in 1988 a 4.3% slump took place, and at present the production volume of the industry is by one sixth less than in 1980.

Different indices of the industrial net output also foreshadowed the unfavourable positions of the county's industrial potential. These indices were below the national average. (2.8% of the national income was produced by Baranya county in that time.) The index of industrial development (net output value per person) was 69% of the national average, the index of living labour productivity (net output per industrial employee) was 66%. Among the 19 counties of Hungary Baranya was fifteenth in the first index, in the latter one it became last.

Only the level of industrialization (rate of industrial employees within the population) exceeded the national average. A misconception regarding the condition of regional development is revealed very clearly in the case of the county, that is the industrialization (as a quantity index) and the state of industrial development (as an index representing quality indices as well) run into one another. Industrialization was generally used as a development indicator, and in using this structural problems for example were not even revealed.

A claim for reshaping the development track has also been outlined from the structure of industrial net production in each industrial sector. 29% of industrial output came from mining and electric energy industry, 14% from raw material industry (chemical industry and building material industry), also 14% from machine industry, 43% from food processing, light and other industries. The cause for the industrialization index to be the only one above the national average is the mining orientation of the county. At the same time there was a word of warning, namely that the rate of net output in the machine industry was just half the national average, and that the production of food processing and the light industry exceeded the rate of the sectors in the national economy by two thirds.

We get a similarly gloomy picture of the *industrial structure* with regard to the number of employees (*Table 1*).

There was hardly any visible change in the industrial structure of the county in the eighties. Beside the fall-off in mining and the coming up of food industry, there was not much of a reorganization. The industrial structure has essentially been preserved in a condition which was different from the national one and in a less developed one taking the economic and market conditions into account (*Table 2*).

Table 1

**The structure of industry in Baranya county by the
number of employees in 1980 and 1990**

Industries	1980		1990		Change
	Number of employees	%	Number of employees	%	1990/1980 %
Mining	21,313	29.7	13,422	25.9	63.0
Electric energy industry	2,418	3.4	2,432	4.7	100.6
Metallurgy	729	1.0	546	1.1	74.9
Machine industry	8,968	12.5	6,518	12.6	72.7
Building material industry	5,463	7.6	3,979	7.7	72.8
Chemical industry	1,437	2.0	1,625	3.1	113.1
Light industry	17,953	25.0	13,606	26.3	75.8
Other industries	3,721	5.2	260	0.5	7.0
Food industry	9,784	13.6	9,399	18.1	96.0
Total	71,786	100.0	51,787	100.0	72.1

Source: Baranya megye statisztikai évkönyve. 1980. 1990. (Statistical Yearbook of Baranya County. 1980. 1990). Pécs: Központi Statisztikai Hivatal

Table 2

**The structure of industry in Baranya county and in Hungary by the number of
employees in 1980 and 1990 (%)**

Industries	Baranya county		Hungary	
	1980	1990	1980	1990
Mining	30.9	25.9	7.1	6.1
Electric energy industry	3.3	4.7	2.2	3.4
Metallurgy	1.1	1.1	6.0	4.9
Machine industry	11.5	12.6	32.0	32.9
Building material industry	7.4	7.7	4.9	4.6
Chemical industry	2.2	3.1	6.9	8.6
Light industry	28.3	26.3	25.3	22.1
Other industries	1.4	0.5	3.4	1.9
Food industry	13.9	18.1	12.2	15.5
Total	100.0	100.0	100.0	100.0

Source: Baranya megye statisztikai évkönyve. 1980. 1990. (Statistical Yearbook of Baranya County. 1980. 1990.) Pécs: Központi Statisztikai Hivatal

The difference itself does not represent a problem of course, since the specialization of regional economies, adaptation to local circumstances, is a necessity and provides a resource for regional economic growth. The structural problem is characterized by the lack of one or two tracks of adaptation when structures and basic elements survive, despite the fact that the evoking economic and market conditions have already changed or become disadvantageous.

With regard to our topic it makes no difference actually whether the cause of it can be found in the centralized economic policy, the simulated market, distorted prices, that is in the characteristics of macroeconomy as a whole or in the companies' organizational, management or local, in some respect subjective elements. The structural problem, as starting position is a given thing.

The industrial structure of Pécs city, the county centre is not much more advantageous, however, the trends of structural change characteristic of the whole county here are more striking (*Table 3*). The significance of the town in the county's employment rate has lessened. Decrease in mining is considerable but its counterpoint is the leap forward of the rate of food processing. Compared on a nation-wide scale, the town's industry, however, presents quite a gloomy picture in 1990 as well.

Table 3

The structure of industry in Pécs city by the number of employees in 1980 and 1990

Industries	Number of employees		%		Percentage in the same industries of Baranya county total	
	1980	1990	1980	1990	1980	1990
Mining	13,133	4,260	34.2	16.9	62.6	31.7
Electric energy industry	1,761	1,849	4.6	7.3	78.2	76.0
Metallurgy	283	191	0.8	0.7	37.0	35.0
Machine industry	4,507	3,637	11.7	14.4	57.5	55.8
Building material industry	2,345	1,795	6.1	7.1	46.5	45.1
Chemical industry	883	1,038	2.3	4.1	61.9	63.9
Light industry	9,340	6,456	24.3	25.6	48.7	47.5
Other industries	739	170	1.9	0.7	73.8	65.4
Food industry	5,433	5,849	14.1	23.2	57.6	62.2
Total	38,424	25,245	100.0	100.0	56.6	48.8

Source: *Baranya megye statisztikai évkönyve. 1980.-1990.* (Statistical Yearbook of Baranya County. 1980. 1990.) Pécs: Központi Statisztikai Hivatal

Structural weaknesses of the industry in the county of Baranya are reflected in the development of income producing capacity as well. The profit of the enterprises in

the county rose from 1,850 million Ft in 1986 to 2,619 million Ft in 1987, then in 1988 it went down to 1,797 million Ft and even in 1989 it was only 2,117 million Ft calculated at current price. The profit per employee in industry in 1989 is 36,500 Ft, and it is equivalent to 3.4% rate in proportion to net returns. Additional document to the permanent character of the structural problem and to the fact that it is still not changing is given by an analysis of the 1986 figures made by Baranya County's Territorial Organization of the Central Statistics Office. According to it 7% of industrial employees in Baranya work for an economic organization with low profit-yielding, 13% for organizations which are in a bad financial shape, and 23% work for organizations which produce low profit and are in a bad financial shape. It is true that economic problems are cumulatively present in mining and building material industry (the last group), but these companies employ 23% of the industrial workers. The companies which are in a bad economic position employ 41% in light industry and 15% in machine industry.

Finally we must point out that among the factors representing the growth capability of the industry, the background for research and development are rather weak in the county, though they are essential in the secure market diversification to come. 0.96% of active wage-earners in Baranya (1,944 persons) worked in jobs connected with research and development (the national rate is 1.6%). From the figures of *Table 4* a general survey is drawn up which proves the disadvantageous conditions of research base in the county. According to R+D inputs Baranya is the twelfth among the 19 counties, whereas it is last according to inputs per researcher which is only 25.9% of the national average. The fact that only 4 company research units are registered by research and development statistics from the 81 R+D centres of the county gives food for thought, and at the same time reveals a whole range of things to be done. Characteristic additional fact is that only 4 of the 700 development projects supported by the Central Technical Development Fund and 30 million of the 6 billion Ft financial support were allocated to Baranya in 1991.

Table 4

Data for the research-development centres in 1986

Counties	Total number of staff	Expenditures		Input by researcher	
		input million Ft	order	(thousand Ft)	order
Budapest capital	50,839	18,792.8	1	741.4	9
Baranya	1,944	223.0	12	184.6	20
Bács-Kiskun	678	132.8	13	421.5	11
Békés	756	245.5	10	1,319.8	4
Borsod-Abaúj-Zemplén	2,322	720.1	6	725.2	10
Csongrád	3,656	747.0	5	412.3	13
Fejér	2,455	1,250.4	2	1,576.5	2
Győr-Sopron	1,449	578.8	8	808.4	8
Hajdú-Bihar	3,225	630.9	7	361.5	16
Heves	570	72.7	16	225.8	19
Komárom	624	233.1	11	1,137.1	6
Nógrád	241	37.5	19	421.3	12
Pest	4,050	1,225.7	3	899.3	7
Somogy	220	43.8	18	339.5	17
Szabolcs-Szatmár	745	119.9	14	368.9	15
Szolnok	711	260.2	9	1,227.4	5
Tolna	247	87.7	15	1,654.7	1
Vas	162	19.4	20	242.5	18
Veszprém	2,414	1,150.2	4	1,345.3	3
Zala	355	64.6	17	408.9	14

Source: *Tudományos kutatás és fejlesztés. 1986.* (Research and Development. 1986.) Budapest: Központi Statisztikai Hivatal

It is difficult to show with synthetic indices the economic potential of Baranya's industry on the whole. The position according to value added may be the fixed point to hold on when giving a rough characterization. The appropriate data for statistics are collated from the companies' balance sheet reports, from the field observed in it, that is reservations must be pointed out mainly in relation to a given region. It arises mainly from the fact that performance is sometimes taken into account in another region or can't be revealed. All this is caused by the organizational system of the economic units, and it happens more often in the case of significant extraterritorial dependence. On the whole statistics underestimate the value added in the county's industry a little, yet it is illuminating to survey these sets of data (Table 5).

Table 5

Distribution of the added value of industry in 1990

Industries	Distribution (%)		Added value per employee (thousand Ft)	
	Baranya county	Hungary total	Baranya county	Hungary total
Mining	27.2	11.9	303	789
Electric energy industry	12.2	11.8	748	1,374
Metallurgy	1.0	6.6	277	533
Machine industry	9.2	24.4	211	298
Building material industry	12.3	4.3	461	373
Chemical industry	7.5	16.6	686	778
Light industry	16.6	13.3	182	242
Other industries	0.3	1.0	154	224
Food industry	13.7	10.1	217	259
Total	100.0	100.0	288	401

Source: Baranya megye statisztikai évkönyve. 1990. (Statistical Yearbook of Baranya County. 1990.)
Pécs: Központi Statisztikai Hivatal. (Calculation by authors.)

It turns out from the table that backwardness of the county's industry is significant even compared to the national average which does not represent a high standard either. It must be mentioned that the industrial structure of Baranya can be described by the dominance of mining, light and food industries, and exactly in these fields the county indices are low or significantly lagged. We firmly believe that – all possible influences of errors taken into account – the data in their trends give a realistic evaluation of the relative situation of the county's industry. Experience proves that the companies which had a characteristic and determinant role in the county's industry previously are now almost without exception in the state of heavy recession, not rarely of disintegration.

Agriculture reveals a more favourable position regarding the county's economic potential. The previously used index of value added per employee was 379,000 Ft in Baranya in 1990, compared to 311,000 Ft of national average.

The average estate value, which reveals the quality of all the large farms' agricultural areas in Baranya is virtually identical with the national figure (18.8, 18.9 respectively), but within it cropland has a county average of 16.4, and the national average is 17.4. There are significant local differences within the county average. For example the productivity of the eastern and the south-eastern parts is distinctly favourable with large farms working efficiently, but the other parts are more or less disadvantageous. The greater part of the Pécs-Komló region belongs to the

disadvantageous zone. For example the average index of productivity in the landscape of Hegyhát, a large part of Pécs-Komló region, is around 10–12.

Natural resources of this region don't encourage agricultural production in large farm, form especially in a production structure, which until recently because of economic and financial conditions was generally favourable (profitable in sectoral respect) for large farms in Hungary. Despite this fact, or perhaps that is why the regional plant concentration of the agricultural co-operatives here exceeds the county average. Though it cannot be proved directly – with data –, the accompanying over-employment within agricultural plants is likely to be significant.

It is very difficult to render anything probable in its future, however, agriculture may play only a partial role in the transformation of Baranya's economic structure, in its revitalization through food processing. If we consider its role restricted to the Pécs-Komló region then we should suppose that it worsens the critical regional situation caused by the industrial structural change and the reduction of mining; because the change in the agricultural organization and ownership system, the selection made by the market, and the ceasing of forced over-employment all make the region's agricultural supporting base weaker, free labour force, and in the case of certain towns, villages and small zones the lack of attached economic base may occur.

Summing up, the economic structure of Baranya is characterized by an industry which is organically and locally concentrated, obsolete in its sectoral structure, regressive in its activity and profitability and by an agriculture which is still developed and yielding above the average, with relatively favourable resources. However, in the case of the agriculture one the possibility of development – which promotes regional economic stabilization is – differentiated in regions and exactly the Pécs-Komló zone is one of those where this chance is considerably less.

High-grade polarization in its rural and urban structure has always been a feature of Baranya's regional development: lots of small villages at one end, and Pécs, which has the function of the regional centre at the other, and between the two the interim levels which are generally underdeveloped and can fulfil their functions in the rural-urban network system only partially. This is the reason why processes in this region have been concentrated even more than necessary in territorial sense: the theoretically possible regional system and proportions for fulfilling different management-production-supply functions were replaced by a more concentrated regional system virtually, where the fulfilment of functions was by turns shifted upwards. The process, of course, was sustained and not in a small extent by concentration and centralization of economic and regional policy. At present we are witnessing a virtual local „Budapest-syndrome”, with the difference that the centre which is much more developed than its region also got into a critical situation, because its economic structure has stiffened and become obsolete. The Pécs-centred feature of the county

has been given, it cannot be ignored, and the fact that its whole region has got into an „operating dependence” of it cannot be ignored either.

The region which is directly threatened by depression has approximately 250,000 inhabitants, as we suppose it, and this is more than half of the county's population. In this region – Pécs, Komló and about 50 connected villages – 80% of the county's industrial employees and of gross value of fixed assets, 79% of net value of the industrial machines and equipment are concentrated here, so as to mention only some features. Internal concentration within this core area is of similar extent: 81% of the population, 92% of the industrial employees, 95% of the industrial gross value of fixed assets, 96% of net value of the machines and equipment can be found in Pécs and Komló towns.

Apart from this region, the territory of the county, with the exception of the north-east and eastern parts, is practically covered by underdeveloped rural areas (reaching into the supposed area of depressed zone at some places). A further one seventh of the population (approximately 60,000 people) live here. In order to make the difference clear: only 5% of the industrial employees of Baranya live in these rural zones and 11-12% of the whole gross value of fixed assets can be found here.

Underdeveloped rural and depressed areas jointly mean that the regional economy of the county struggles with severe development problems, and is characterized by structural crisis. Despite the internal differences and basically different internal relations the whole of the county's economy needs an overall treatment. Though the development of economically underdeveloped rural areas and the restructuring of the depressed zone as programs should be placed in the centre of a county strategy as equal tasks, key position is taken by Pécs and partially Komló.

The size, structure, efficiency and dynamics of the economy in the Pécs and Komló region cannot fulfil the role of the engine, which it has played in development so far. The majority of reasons causing the economic development to stop short and decline does not differ from the factors which caused the emergence of the depressed areas in the developed countries. It also shows great similarity how general economic policy exerts its effect.

The critical situation of the Pécs-Komló industrial zone and its becoming a depressed area can be explained mainly by sectoral recession. The heavy reduction in the dominant coal and uranium mining cannot be counterbalanced by other structural elements or resources of the region. Moreover, the change of the economic regulatory system, the operativeness of normative regulators – first of all the reduction of export subsidies – as well as – and primarily – the dramatic change of market conditions shake the position of the light industry which is the other pillar of the economic base. Food processing, the third pillar also joins them, there are also negative signs are gathering at present.

This economically declining region – if factors bringing about economic crisis are jointly present already – is less and less capable of the economic restructuring or of lessening the local social and political tension. Economic reduction influences the psychological state of the local communities increasingly, a demographic erosion can be brought about, highly qualified people may transmigrate (it can be detected from certain signs that the rate of professionals among active wage-earners is continuously decreasing), the state of the service sector may get worse. That is, the conditions for introducing modern economy are becoming more and more unfavourable.

The present socio-economic state of the Pécs-Komló region indicates a deepening depression. The income yielding capacity and development hopelessness of the economy marks the beginning stage of the region's decline. However, the classical features of the depression cannot yet be found in the sociological structure of the society or in the infrastructural sectors. That is the very reason why there is a chance in mid-terms to prevent deepening of the crisis and high-grade growth of social costs of revitalization. It can be done by working out an regional adaptation and development strategy as soon as possible and by creating a system of means combined with it.

Unemployment more and more serves as some synthetic indicator of regional crises, which are more and more common and wide-spread, and as a counterpoint of it: the spreading of new-type organisations, the intensity of enterprises being established can be an index number of positive reaction to the crisis. These two indicators – not by chance – denote a certain discriminant in the government policy as well, they give criteria according to which areas which are in the worst state and are in need of central intervention most, can be pointed out.

Unemployment is present in Baranya appearing in absolute numbers as well from 1989. However, the presence of a considerable, yet in-doors unemployment was foreshadowed previously by the county's economic structure, and by the signs of employers' financial position, liquidity, significant narrowing down of the market. The number of open and registered unemployed people was 960 in the first month of 1990 and it rose to 5,780 by the beginning of 1991. Within it the rate of unskilled and commuting unemployed people was dominant. Redundancy mainly hit the unskilled workers whom the companies had to reimburse travel expenses, so it was a money saving action.

At the same time on the demand side the 2,045 vacancies registered in January 1990 went down to 893 by the first month of 1991. Moreover, demand and supply sides showed great structural differences, as the above mentioned supply of mainly unskilled workers did not suit the companies seeking skilled workers first of all.

Tension accumulated in the production structure and in the employment structure of the county as well. While the number of employees in the production (the 1st and 2nd sectors) decreased and increased in the non-material services, processes leading

to the constraint of structural change intensified. These processes were embodied in staff cuts in the first stage.

The fact that the industry of the county has been concentrated in the very region that has become a critical area makes it more difficult to ease the tension, and economic and infrastructural conditions for diversification are insufficient in other zones of the county.

As a consequent upon all these facts the number of employees in the county decreased by 17% in 1991, mainly in industry and building industry, but other sectors have made considerable staff cuts too.

The heavy predominance of supply in the labour force market has also been and being effected negatively by the demographic growth of the labour force, until 1994 about 5,000–6,000 young people will seek for their first job. During the year a rapidly growing unemployment which increases by 1,000–1,500 persons every month was registered. By the end of 1991 the number of out-of-employment job-seekers multiplied by 3.5 that is 18,003 persons (*Table 6*); among them 15,031 received unemployment benefit or allowance.

Table 6

The number of the out-of-employment job-seekers in 1991

Districts	January 1991	June 1991	December 1991
Pécs	1,737	2,358	5,478
Komló	1,301	2,002	3,602
Mohács	1,167	1,752	3,310
Sellye	905	518	1,023
Siklós		995	2,161
Szentlőrinc	670	369	613
Szigetvár		725	1,816
Total	5,780	8,719	18,003

Source: Data by the Job Centre of Baranya County

The rate of unemployment from 2.7% in January rose to 9.1% by the end of the year, which average covers considerable territorial spreading. While it implies 5.3% in Pécs, it implies 12-19% in the towns Komló, Mohács, Szigetvár and in their districts. The unemployment rate in Hungary at the end of 1991 is 8.5%, within this 2.6% in Budapest, the capital, while 10.3% on the average in the provinces.

The labour force market was burdened with contradictions, which meant regional on one hand and structural troubles on the other hand. Great majority of jobs was offered by employers in Pécs (80-90%), at the same time only 20-40% of job-seekers were inhabitants of Pécs. As recently as January 16 jobs fell to 100 job-seekers, but

only 9 in June, and only 2 in December (skilled manual workers were in the most advantageous position, 15 jobs fell to 100 persons in June, while only 5 in December).

The change in the unemployment structure is marked by continuous growth of skilled unemployed people, and simultaneously the number of unemployed people with higher education has also increased during the year. 60% of out-of-employment job-seekers are men, which is more than their share within active wage-earners, 75% belong to the 25-55 age group, the rate under the age of 25 is 22%.

Surveys and prognostics project a much darker picture for the end of 1992: on the whole, the position of the county's labour force market is expected to have 35,000–40,000 registered unemployed people beside 150,000 employed. A further differentiation of regional and structural differences can be expected within these indices.

Despite the increasing tension of the labour force market, employment opportunities are „the most favourable” in Pécs. The relatively favourable position may originate in the Pécs-centredness, however there is also a dynamic unemployment growth in the background. The large companies concentrated in the town struggle with severe problems, majority of them have lost their markets, their liquidity is weak. Negotiations with foreign partners are drawn out or do not realize. Privatization is slow and difficult.

The unemployment rate is 5.3% in Pécs in December 1991. The number of unemployed people is continuously growing. There were 1,737 job-seekers in Pécs in January and 5,478 in December. One third of the unemployed are skilled workers and one third are professionals. 65% of the reported vacancies are in Pécs. 61% of the jobs in Pécs offer employment to skilled workers, 14% to professionals. However, this means only 200-300 jobs. The efforts of the employers to cut staff have intensified, the number of reported organised staff cuts for the first quarter of 1992 is close to 1000 men.

Depression effects concerning the county are concentrated in the Komló region. Employment opportunities for those who have become unemployed because of staff cuts have narrowed down, the period of time when they wait for employment has increased. Employment of unskilled women implies a special problem here.

The unemployment rate of Komló is 5.9% in January 1991, number of unemployed people is 1,301; 16.3% in December, 3,602 men; which shows a 2.8 fold growth. 27% of the reported vacancies in the county is in Komló and its district. But this means so few in absolute numbers that we cannot speak about job supply. Only 18 jobs can be offered to 3,602 unemployed people.

To sum it up, we can state that the heavy unemployment which is already pressing at the moment – and is bearing social tension – is growing on in Baranya too. The established low wage-level makes it often impossible for the employers of the region

– because of the relatively high wage-level of the mining workers – to employ people who have already become unemployed.

Resulting from the regionally different effects of the processes which foster the growth of unemployment (industrial bankruptcies, restructuring of agriculture, etc.), the prognostic concerning the county in 1992 shows hardly any modification in the structure. The nearly 30% share of Pécs in the number of unemployed will remain, the 20% share of Komló and its district will increase a bit, but supposedly in a way that the unemployment in the district increases more than in Komló town.

So the closing of the mines not taken into account, there is likely to be 9,000–12,000 unemployed in Pécs and its district, and 6,000–9,000 unemployed in Komló and its district. However, in the previous case the share of town-dwellers of Pécs will be at approximately 80% in Pécs and its region, while in the latter case the presently 40% share of Komló may decrease a little.

If this extremely pressed oversupply market is even swelled by ranks of unemployed laid off from mining then this makes it impossible to cope with unemployment. The labour force absorbing capacity of the region is practically zero, it can manage natural labour force change at best. The retraining of the peculiar labour force employed in mining – even if the trend of retraining could be predicted because of quick upswing of the economic basis – is very difficult because of the state of health and attitudes of these people.

The reduction of labour force supply, its tolerable extent can be achieved only by job creation based on well-considered conception. Only in this case the means of employment can help this process to be implemented and realized. The county's Employment Fund is not capable of doing this properly. The claims for the deconcentrated fund in 1991 – especially in job creating investments, retraining and retirements with waiving of the age-limit – far exceeded the possibilities.

Significant worsening in the condition of the labour force market can be revealed in other indices as well. Another index of the social situation is the *income positions of the population*. It is a well-known fact that with regard to property and income Baranya – due mainly to the mining industry – was one of the regions in the country where people were better off reaching back for several decades. This better position seems to disappear according to income and tax statistics for 1990. The revealed taxable income per person is 156,000 Ft in Baranya, and the national average is 165,000 Ft in 1990.

With regard to the size of the specific income tax this means the following: compared to the national average of 12,000 Ft of income tax per person, and to the provincial average of 9,600 Ft, Baranya's index is 11,000 Ft. Average specific tax bases of Pécs and Komló are better (181,000, 158,000 Ft respectively) than the county average.

According to the *formation of new businesses* and the spreading of enterprises, the county of Baranya is around the national average, or a bit above the provincial average. Of course Pécs plays a determinant role in this respect: according to the data given in the firm bulletin one (0.94) person from about a hundred founds a new enterprise. The town average in Baranya is 86 persons from 10,000, though Mohács, the next town, has less than half of it compared to Pécs. Moreover, if we do not take Mohács into account, the villages belonging to the district of Pécs have an average enterprise-frequency index which exceeds the index of other towns of Baranya. This means that Pécs and its district – following a model of concentrated and hierarchical spreading (diffusion) – produce the position of Baranya in the spreading of enterprises. The counterpoint is, unfortunately, Komló. According to the situation at the end of 1991, Komló is the 39th among the 176 Hungarian towns in its population, whereas,

- it is the 70th according to the number of new enterprises,
- within this it is the 81st according to the number of limited liability companies,
- it is the 122nd according to the frequency of new enterprises (number of new enterprises per 10,000 inhabitants),
- it is the 140th according to the frequency of limited liability companies,
- it is the 122nd according to its growth rate of new enterprises in 1991.

Almost each of the data proves the very disadvantageous position of Komló when compared to both the national and the county state, especially to Pécs in the field of economic revival and transformation of organization. Characteristically enough, the indices of Sásd and Pécsvárad, two previous, historically established microcentres of the region, are better. The frequency index of the new enterprises in these villages together with some other villages of the district is nearly equal with the index of Komló town (27 people found a new enterprise from 10,000 in Komló, and 24 in its district). The number of new businesses more than doubled in each town of the county in 1991, in Komló this index was only 78%, so the pace compared to 1990 slowed down.

If we consider the reaction to crisis according to the spreading and frequency of new organisations, then we must state that Pécs and its district are in an advantageous, the town of Komló and its district are in quite a disadvantageous position. Because of the economic structure and the development of the economic base, the whole of the Pécs-Komló region suffers from depression crisis, which would need regional policy intervention. This region is surrounded by a large underdeveloped rural zone, which together with the depressed core implies the very imminent chance of turning into a socially and economically critical region if it does not get support. It would be much more difficult and the costs would be much higher if it was handled later.

NEW FORCES DRIVING THE DEVELOPMENT OF THE AREA

In order to decide on a new course of development we have to reassess the resources and characteristics of the Pécs-Komló urban areas. The defining role of the mineral resources, i.e. the predominance of mining will be considerably reduced. Instead of the extraction of these natural resources the new economic activities will primarily rely on the existing infrastructure, human resources, the mobilization of capital goods, the exploration of interior resources and an organization structure capable of attracting operating capital from abroad. The main elements of this economic transition will be intellectual work, technical development and the appreciation of management activities. As a new resource for growth we can count on the geopolitical situation of the region, its participation in a international division of labour. The changes in the political and economic relations with the countries of Central Europe will also significantly influence regional development here. A promising idea on the part of Hungarian foreign policy is to consider Central Europe as a unified, independent region of civilization instead of a set of separate countries, regions. This means that a field of action for Baranya county in international relations could be the Alpine-Adriatic Regional Association, this highly developed region in Central Europe, mainly because of the geographical proximity that is so important in the international regional division of labour. Another component of development will be the transformation of economic organizations. The structure of business companies will become more differentiated, due to the new, venture-friendly environment. New company forms will appear: partnerships, corporations, joint ventures etc. that will make efforts to improve the technical culture of production and improve also services required by production. In contrast with the traditional attitude to production, more intellectual and material resources will have to be devoted to the creation of the market and the establishment of the company's presence at the market. The small companies established with state support and a special credit system will adopt new forms of co-operation in manufacturing. The interaction of local communities will strengthen the local-regional relations of market co-operation because economic adjustment does not depend on the individual performance of isolated businessmen, but rather on the partner relationships and the mutual transfer of innovations. This requires a special atmosphere of economic psychology in which people can be united not only for the achievement of economic targets but also for the advance of their environment, settlement and local society. Besides the market forces these

professional, cultural and political norms of the local community will act as a driving force of economic rationalism.

All things considered we can say that the county's strategy for regional development must be based on a new combination of the internal economic resources. External – national and foreign – means of economic development should be used exclusively with regard to preferences of local requirements, in order to make better use of the local resources or increase efficiency. Only this kind of local policy can prevent the recurrence of the development policy which prevailed in the 1960s and which, in order to solve problems of unemployment, might lead to the emergence of a vulnerable economy with unintegratable components, based on external regional dependence. It is self-evident, however, that the solution of the increasingly high unemployment will require, in certain cases, the so-called „blitz” programmes of the traditional regional policy of industrial development. The main driving force of the processes, however, will not be the unilateral involvement of the extra-regional factors, but an innovative regional policy, serving the purposes of socio-economic modernization. Parallel with the development of such a programme the local organizations will have to expedite legal guarantees for regional participation in the decision-making process and decentralization in politics, government and planning, which is a prerequisite for the full evolution of regional skills of innovation and adjustment.

The main trend in the development of the economic structure in the Pécs-Komló region is diversification, the introduction of potential flexibility into the economy. The importance of the extracting industry in the region will be reduced and the positions of the processing industries will become stronger. The organizational structure of industrial production will also be modified, with a decrease in the concentration of large companies and the viable machine industrial plants becoming independent of their external headquarters, thanks to the new legislation on transformation and economic associations. The extensive development of the third sector will create new jobs, the range of quaternary functions will extend and in this way Pécs may become a regional centre for services.

The main purpose of the structural transformation in the region's industry is to cut down loss-producing activities, to increase the share of modern manufacturing industry and to reduce the concentration of the industry into the two towns. Because of changes in the regulations of the processing industrial exports to East Europe, a transformation can be expected in capacities, product and market structure. The expansion of the manufacturing industry will primarily be influenced by the social conditions in which it will have to operate in the future. The transformation of industrial structure will depend partly on the new, increased elbow room of the factories and partly on the economic policy that will enforce an efficiency-oriented

attitude. Flexibility in co-operation, finances and organization, as an element in increasing the company's elbow room, has so far failed to get integrated into the system of economic policy.

The trend in the demand for labour is expected to be the following: there will be excess labour in fields that are doomed to be cut down. The companies that are quicker to react to market demand, or more flexible in the adjustment process, may require additional labour in the running-in period. In spite of this the most serious issue in the near future will be the tension caused by employment problems. The modernization of the production structure presupposes a significant redeployment of labour. Many workers of the loss-producing companies that are to be wound up will have difficulty in finding employment or certain groups may become unemployed for a longer time. The more severe conditions at the labour market will reduce the employment of women and the unskilled groups of the population who are at a disadvantage already. We shall have to analyse thoroughly the consequences of the forecast saying that the selective-intensive development of the industry, the increase in labour productivity and efficiency will lead to a steady decrease in the number of industrial workers until the turn of the millenary.

Most probably this forecast and the low share of material and non-material services will make it imperative for us to perform a deeper analysis of these industries during the structural transformation of the economy.

The service sector should be made an important component in the development of this region. This key sector of modernization, especially education and tourist trade are more profitable than other industries and offer equally good opportunities for joining in the international division of labour. The comparative advantages of the region make it positively suited for the development of a complex strategy for tourist trade. Besides the two high quality and marketable forms of tourism – professional and medicinal – we could offer different components of recreational and hobby tourism. This trade might yield hard currency and become an integral part of a national strategy for tourism. The development of the cultural institutions, intellectual workshops in Pécs with the help of a co-ordinated programme, might take a course that allows the integration of these cultural activities into the international exchange of services. The county seat has good potential to become an important Central European centre in the foreign trade of services, and the creation of an international scientific-educational basis is also worth considering. The position Pécs has already attained in the international division of labour in the field of scientific and cultural activities, the appearance of the town at the international market may attract capital and inspire international economic relations as well.

The development of the regional infrastructure can be a purpose but also a means of creating a diversified economic structure and relieving social tension. Bearing in

mind that the infrastructure will play a decisive role in the modernization of the economy in the future, the state will concentrate its economic efforts on this field. The modest goal we can set by the turn of the millenary is to slow down the rate of deterioration and to speed up development in some prioritized fields. Infrastructure directly related to production should be considered an item of top priority.

The development of manufacturing, the transformation into an innovative, flexible economy, the increase of local decision-making and direct participation in the international markets may lead to the emergence of a new resource, the complex system of informatics. The modernization of the main roads and the reconstruction of the airport of Pécs must be given infrastructural priority in the service of economic development. A complex infrastructural development will be required in the regional sub-centres, like *Szentlőrinc*, *Pécsvárad* and *Mázaszászvár*, in order to provide the local infrastructure needed by new businesses.

The system of the economy can only be transformed if the present rigid economic organizations are changed first. Competitiveness can be improved only through services like counselling, marketing, financial transactions. The social mechanisms of fast capital movement, risk-taking and good management require new types of organizations. The operation of the consulting, educational, management, sales and foreign trade networks established with the support of programmes aimed at the development of the marketability of small and medium-size business will provide useful experiences. This kind of infrastructure can be created with capital from banks, firms, the self-government and private entrepreneurs.

The accumulation of commercial capital would be greatly promoted by the establishment of a regional commercial firm, whose activities would range from foreign trade services, project financing through research and development (R+D) promotion to enterprise engineering management. It would be worthwhile considering the foundation of a regional body of foreign trade to be operated in some form of partnership or association.

The Industrial Fair of Pécs could also serve product and technology renewal after a radical change in the basic concept and with good management. An expert organization will have to be set up for the development of foreign trade in services.

The role of crediting and banking is expected to grow in the reshaping of the economic structure and the acceleration of capital flow. Because of interest in short-term crediting, banks are not yet able to explore business opportunities, co-ordinate capital flow, investments or manage different businesses. The hierarchic banking systems of the highly developed countries have created various forms of financing regional development.

The rapid increase in the number of financial, banking actors is justified by the recognition that the integration of central and local resources can most efficiently be

performed locally. (The reason why even the innovative small banks prefer to get integrated into the public sector than into the business sphere is found in the deficiencies of the Hungarian economic policy.) Besides the branch offices of international banks, or of central business institutions, we shall have to establish the network of local-regional little banks. Their task would be to perform the financial transactions related to regional development. A special regional bank (with a scope of activities over Baranya county or South Trans-Danubia) could finance and manage regional development and the transformation of the economic structure. It would also have a major role in the crediting operations related to the implementation of regional development projects, in the promotion of new businesses, the rational investment of local resources, the acquirement of credits, state subsidies, normative allowances and the orientation of foreign working capital.

Considering that the general economic backwardness of the South Trans-Danubian region has produced a whole set of problem areas, there will be a need for long-term socio-economic programmes and it would also be worth considering the establishment of a South-Trans-Danubian association for regional development to make use, in international co-operation, of the comparative advantages offered by the geographical location of the region near the border of Hungary.

The complex economic structure and the differentiated organization needed to operate it will set new requirements for the development of human resources in the region (professional training and cultural level of labour). Preparation for innovative activities will call for reforms in every component of the educational system. A revision of the present secondary and special training as well as the establishment of the regional retraining centre would be an important field in the improvement of the professional skills. Another field would be the increase in the number of highly qualified people. Demand is expected to grow mainly for professionals in engineering and the various economic disciplines. The local university could undertake the training of specialists in tourism, finances, marketing and management. Engineering specialists, however, can only be attracted from outside of the county. Perhaps the training of engineers at the technical College of Pécs also needs some reforms.

The transformation of the economic structure in the Pécs-Komló area requires complex means. The specific means to be used in structural and regional development will depend on the role that the state, the government is willing to take, on the division of labour between the counties and settlements as well as on the mechanisms used for allocation.

The registration of the potentially depressive economic processes means that new jobs can be opened parallel with the structural transformation only with the help of special regional allowances. This area – after being declared to be a depressed area – and the other backward areas of Baranya county, as well as other regions of

Hungary struggling with structural tensions should be given a special treatment to alleviate the situation, which, besides measures like abatement of profit tax, entrepreneurial loan for those who start a new business, the employment fund, the regional development and management fund, could include the following:

- a regional system of business insurance,
- accelerated amortization,
- reduction of VAT for small and medium-size business ventures,
- reduction of the social security fee to be paid after employees in case of new jobs, for a definite time,
- better loan and interest conditions,
- special regulation for co-operation among borderline regions.

It should also be examined how it would be possible to regroup the present forms of support and loss-financing according to the new tasks and principles (for efficient job creation, the development of the infrastructure).

It is of vital importance that parliament should make the state responsible for the regional policy means to be used in areas with structural troubles, through legislation. This is the only way for these means to become a good, reliable basis for long-term business ventures.

With regard to the geopolitical characteristics that make this region particularly suited to participate in the international division of labour, it would be useful to examine the advantages and disadvantages of a special economic zone that could be created around Pécs. This goal is in good agreement with the concept that Pécs should become a centre for commercial-economic-scientific relations in Central-East Europe. The advantages of the free-trade zone for regional development are the following:

- a) the productive factors can be acquired without additional costs,
- b) manufacturing has high priority here,
- c) it contributes to the decentralization of the economy,
- d) export possibilities increase significantly,
- e) it creates new jobs,
- f) it introduces new types of co-operation.

Considering that the development of economic attitudes conform to the world market will take a very long time in Hungary, it is important to point out that the adjustment of the Pécs region could be accelerated by the free-trade zone and the effects of the capital inflow on structure, technology and competitiveness could be felt all over the South Transdanubian region.

THE BASIS FOR THE ADJUSTMENT STRATEGY OF THE REGION: INNOVATION AND THE DEVELOPMENT OF PROFESSIONAL CULTURE

The purpose of the transformation of the economic structure in the region is to reduce the share of the material- and energy-intensive, often polluting industries, to minimize or perhaps eliminate loss production and, at the same time, to increase the profitability of the economy by introducing efficient economic activities. The change in product structure is motivated by the requirement of flexible adjustment to the needs of the internal and external market. The failure to achieve all this may result in the loss of the existing market positions for the companies in the region.

Structural transformation will inevitably entail the modification of the employment structure as well. A more efficient production structure will require different quality and quantity of labour, i. e. presupposes a more extended mobility and mobilization of labour than before. Since structural transformation unavoidably goes together with a certain degree of unemployment, the rationalization of the economy has to cope with a significant social opposition in every system.

Adjustment has been defined as a continuous accommodation to the changing market requirements. If this endeavour proves to be successful, the competitiveness of the region or the companies will improve. It means that the continuous monitoring of the changing needs, the production of good that can meet these needs at a high level, the supply of proper services and permanent adjustment are all indispensable components of market competitiveness. Certain interest groups have expressed views that refuse to adjust their business to the demands of the market and prefer to shift responsibility for the solution on others. This attitude is not only naive, but will certainly lead to further weakening in their positions which will entail grave consequences.

Throughout this study we have pointed out several times that the purpose of the adjustment strategy is to increase value added that is realized in this region. This requirement can only be fulfilled by a structural concept that will reduce dependence on factor conversion based on the conventional supply of factors. Such a concept must necessarily contain infrastructural supply representing the comparative potentials, a system of regional management and other factors that can have an impact on the adaptiveness of the region.

Giving top priority to the development of the manufacturing industry within the county's industrial strategy will require a kind of county policy and, in particular, R+D policy that are quite different from what we have had so far. New, value-

increasing industrial cultures can only be adopted if technological development is accelerated, and the environment here in the county becomes more innovation friendly. (We do not and will not mention here those well-known tasks of the macro-economy and economic policy which are prerequisites for the development of the national industry to the international standards.

Technological development, in the broad sense, must be considered as an independent, complex element of county policy in the structural transformation of the Pécs-Komló area. In this area, for reasons we have previously reviewed, innovation, the technical-technological characteristics, management activities are still backward. Financial input into R+D activities is very low, the number of R+D centres is negligible, there are no signs in the economy of the appearance of the innovation chain (research – development – production – sales). New products are very slow to appear in the industrial production of the county.

As an additional remark it must be mentioned that this technical-technological development which has to be accelerated, will, in itself, induce a rearrangement in the economy. These changes in the economic structure will result in changes also in the role certain productive organizations have played in the county, namely they will lose their strong influence and function in the enforcement of interests. The place of the previous relative stability and slow technical development will be taken by rapid changes, a rearrangement in the present positions of individuals and communities, which, in the long run, should be considered so much as part of normal development, as the previous slow, safe development meaning, for the most part, a qualitative growth in the production of goods and services. The organs of the county-level government that were established under completely different conditions of development, can, of course, not cope with the social conflicts that have already broken out. The publicity given to the central, local governmental, and company-level economic decisions and the establishment of bodies and mechanisms for the reconciliation and representation of interests will become more and more important.

Some fundamental tasks related to the technological renewal, and the complex economic and social requirements of adopting new skills and forms of activity are the following:

- a rational modification of proportions within the factors of production so that the new technology should prevail over labour that has so far substituted for technology;
- the exploration of the new resources is not conceivable without the elimination of the loss-producing activities, and the freeing of the productive factors that have been engaged in an unfavourable way;
- an acceleration of the circulation of productive factors, the strengthening of relations for the market of certain factors, the increase in flexibility, the

establishment of the capital market, an increase in the influence of the centres of innovation and the elimination of rigidity at the labour market.

The requirement that technical-technological innovation should be made an element of the county government, raises the question of the division of labour among the actors of the economy and government, all the more so that this task has not been included so far among the traditional functions of either the self-governments or county administration.

It has already been mentioned that the right and duty of decision-making on strategical priorities should be given to the companies. Structural transformation, on the other hand, i. e. the definition of development trends should not be left exclusively to the companies, especially if the economic and social environment is burdened with elements of depression. Company sensors used to follow technical development are mainly based on economic regulations and not on the international conditions of competition. International experiences have shown that the changing philosophy of industrial policy – coupling technological development with management skills, entrepreneurial spirit and marketing – may also extend the channels through which innovation can be promoted and creates a wide range of supports offered by the local-regional government. Besides the traditional participation in the central-governmental, mainly high priority projects of development involving financial allotments as well, many countries offer non-project type support to regions. In addition to the government subsidies given to individual companies or R+D co-operations, the funds provided for the development of consulting, counseling and information services are also considerable. (In Great-Britain, for example, a quarter of the funds provided by the Ministry of Trade and Industry for innovation, was not used for technological development in 1987-88.)

In Hungary the need for the establishment of a decentralized, regional financing system of innovation is justified by the transformation of the economic structure and company organization. The small and medium-size companies (assuming that their appearance and spread is considered the organizational driving force of structural changes) will have serious difficulties obtaining the information, knowledge they need in order to solve the special technical problems and finding markets or partners. A growth-oriented company attitude, coupled with dynamic exports requires an efficiently operating market organization, regardless of the company size. Strongly cost-sensitive small companies cannot even dream of maintaining their own, efficient organizations for marketing, designing, quality control and regulation, business planning, finances and information. Organizations offering services in the above fields will become indispensable in the Pécs region too, but the utilization of these services will have to be promoted with subsidies provided according to strict criteria.

Regional and local governments must play an important role in the creation of the physical, economic and intellectual environment required by technical advance and competitiveness, and in the establishment of a modern infrastructure.

Priorities accelerating technological development in the region could be the following:

- the qualitative and quantitative development of the R+D centres, the establishment of an entrepreneurial-innovative (industrial) pool;
- the development of the innovation chain in the priority areas;
- the organization or extension of post-gradual training in order to have the necessary number of highly qualified specialists in the new structure (e.g. the training of engineers, experts of tourist trade, specialists in the complex socio-economic issues of development, managers, the development of foreign trade culture);
- retraining of skilled workers.

Personal qualities in company management should also be considered as a factor in the innovative processes leading to technical-technological development, since they are at least as important as the technical-economic conditions. It would be interesting to study the role managers of companies in the county play in the processes of technical-technological renewal. Without such a study we cannot prove the conclusions of a national empirical survey: the activities of the managers slow down innovation. Investigations made among technically qualified intellectuals in the county can provide some basis for such a study: we still have a high number of medium and top level manager whose appointment was not motivated by their professional qualities and initiative, therefore many of them do not come up to the requirements of structural transformation. It is therefore justified to expect a rapid change in the company management.

CHANGE IN THE ROLE OF LOCAL DEVELOPMENTS

The development of the economic agglomeration of Pécs-Komló is affected by extra- and intra-regional factors. In the short run the trends of restructuring will certainly be greatly influenced by the decisions of the central government under the economic pressure and hopefully on the basis of rationality affecting the extractive industrial bases in the near future. At the same time the predictable future of the reform of the Hungarian economic policy and of socio-economic modernization, as well as the possibilities of the unfolding of a consistent regional policy will ensure in the long run for the regional development to rest upon an adjustment strategy based on the consensus of the local business, governmental and civil autonomies.

The elaboration of such an innovative regional development strategy should be aimed at, the main endeavour of which is to consistently create a diversified economic structure built upon the endowments of a particular area, in this way the region becomes suitable for fulfilling a driving role which is required by the neighbouring backward regions. In the forefront of the innovation-oriented regional development policy is the development of marketable products, industrial processes and services, followed by their systematic, programme-like renewal. That is to say, regional policy should serve the development of the adaptability of this area. Therefore, in a mixed economy functioning under market conditions the regional policy does not influence the local economic and communal decisions according to the central norms as in the past but rather on the basis of the signals of the market tendencies it will mobilize performances required for the changes by means of adequate local regional-economic decisions.

Local development is a relatively new concept in the international special literature. Among the users of the concept there is no consensus on how to interpret it or how an economically well-founded policy should make use of the possibilities of local development. The diverse standpoints can be summarized by two conflicting systems of views. One of them is characterized by conceptions within the framework of the present economic system, while the other outlines a significantly restructured system of the capitalistic mixed economy.

What is implied by the mysterious concept of local development? The word *local* means an event or activity, the replacement or maintenance of which starts from the regional or lower levels. By the word *development* the interrelation of economic growth with structural changes in an irreversible way is meant. It can be measured

the best by the change in the relative productivity standard of a region and the size of the incomes projected in relation to the population.

Thus local development is such a locally induced economic growth which takes place with taking into account the framework of the market system. In order to remain local it has to undergo a four-stage change:

- a/ the appearance of local businesses,
- b/ growth and expansion of local enterprises,
- c/ keeping the local enterprises under local control,
- d/ realization of an autonomous local structure of control and local business service sector.

It is clear then that the local development refers to a process in which the endogenous, local factors play a decisive role. In this way the concept of the local development policy also rests upon the assumption that the individual regions may relatively get an edge over the others by means of internal ventures. Therefore, it is not true that their fates are completely determined by the locational, structural and resource endowments as well as by the limitations of the external relations. There has been much evidence to show that individual areas were able to create something outstanding at the national level even under adverse circumstances when the people living there had the adequate know-how and entrepreneurial spirit coupled with initiative skills.

By virtue of their nature regions are open systems in the economic sense. We must not forget about the significance of the external factors. Thus the local development policy is not a replacement but a supplement to regional policy.

1. First approach to local development: the role of capital

In spite of the fact that the specialists of regional development have stressed for a long time that development does not have merely an economic character, very few of them have gone beyond that point in reality. The governmental policy and the scientific theories wish to take the decisive steps of regional development by means of developing the industrial activities. The formula is simple: to make an area more attractive the capital possessed by it should be increased in some way. Either the investments of the community should be enhanced or private capital be supported.

The government officials break down expenditures into two categories: the „normal” category includes the buildings, industrial plants and the infrastructure, while training and services are referred to as an „inferior” category. This is so in spite of the fact that *Kuznets* outlined the grave consequences of such a narrow interpretation of investments already in 1965. The present paper was not written with the purpose of giving a survey of the activity of the „human capital” school, yet it

should be mentioned that some endeavours relating to regional problems can be also found within this topic. Several essays point out, for example, that the improvement of the infrastructure of a region in the interest of the encouragement of economic relocation has hardly any effect on the economic welfare and long-term productivity of the local population, if it is not accompanied by activities relating to the population itself enhancing the entrepreneurial spirit, or professional flexibility.

The point at issue is not simply the appearance of the human capital, but rather a theory of evolution built upon a strongly anthropologizing system of premisses. In our opinion the beliefs, systems of values and abilities of the people also play a great role in the development of a region.

Thus, while the relevance of the system of views based upon the traditional investments cannot be neglected in the least, we should also realize that the *paradigm of human development* must also appear in the improvement of the regional development policy. With the services, research and development, as well as education coming to the forefront their role will increase.

In summary, local (or maybe regional and national) development may not disregard the fact that the capital is not exclusively of physical character, on the contrary, its human character can be revealed to a greater and greater extent.

2. Second approach to local development: the role of migration

According to the traditional concept of regional development policy the population is to be regarded as labour input which has to be allocated or reallocated in accordance with the varying conditions of demand. It is also assumed that the interregional differences in employment and wage rates can be minimized by the reallocation of the labour force and the interregional movement of the population. For this very reason in the backward regions the impeding of the creation of the equilibrium by means of outmigration will give rise to higher relative unemployment or lower wages. Consequently, a governmental or regional policy controlling migration from such areas (transfer payments, unemployment benefits etc.) will actually promote the maintenance of disparities. This kind of argumentation can often be encountered.

No doubt, such effects can be reckoned with, but we must not forget either that the traditional conceptions on regional development policy contain also implicit assumptions which do not stand up in each case. Therefore, the general assumption which considers the demand for labour to be exogeneous, would disregard the effects of the behaviour, composition and size of the local labour force. Since in the static model the production procedures and economic structures are given, the internal labour has no other choice but to migrate, or to make do with decreasing wages at the

time of a possible decrease in demand. That is to say, the local labour is passive without innovative solutions of its own to surmount the difficulties.

With changing the time horizon a different picture may be outlined. The long-term economic growth – also accompanied by lasting increase in the per capita incomes and large-scale structural, sociological, demographic and cultural changes – will result in more complex changes than the conclusions of the static conceptions. It is a widely known fact supported by empirical evidence that the phenomenon of migration is not evenly distributed in the case of the individual social strata, or groups. Among the migrators the number of qualified experts has a weight which is higher than proportional, and there are also the ones who have some important quality from the aspect of economic development. In this group it is not simply the labour that migrates, but also some kind of source of growth: capital, qualification, initiative, innovativeness and entrepreneurial spirit, too.

This argumentation, which seems to be lying far away from the local development policy, has an obvious objective: a regional and local policy which aims at tying people and, through them, expertise and knowledge by supporting local entrepreneurship can be a valuable alternative of possibilities to the same extent, as the conceptions trying to create equilibrium by means of encouraging migration. Consequently, outmigration does not necessarily have a positive impact on solving the problems of a region which struggles with crises.

3. Third approach to local development: the role of growth centres

In our days the conception built upon growth centres enjoys great popularity among the decision-makers because the possibility of the state to intervene arises as opposed to the pure market mechanisms. The basic approach of the models of this type is that the stimuli of growth should be created selectively in the regions, which will be gradually shifted or spread downwards to the spheres lying far from the growth centres. (This can be evaluated not only as a geographical but also as an economic distance.) The model itself seems to be an attractive alternative, since it gets a foothold on a no man's land which is situated on the boundary of state intervention and market mechanisms. Namely, having assigned the centres of geographical and sectoral growth, the state will give only an initiative push to the processes and then these will have their impact through the channels of the functioning of the market. Thus the model would be able to serve both social equity and economic efficiency. The conception is greatly attractive, unfortunately not all its conclusions are supported by empirical reality in each case.

On the side of the local development policy the ideas built upon the growth centres are weakened by the fact that with the exaggerated stressing of the importance

of joining it obscures the role of the local investments. It also disregards the fact that the territories integrated through the subcontractors' relationships, being able to join only at the second stage, can often carry on only activities of a much lower level than before. In a number of cases regular „colonization” (the shifting of production representing a low technological level, prevention of the possible penetration of innovative processes, an increased demand for unskilled labour etc.) is taking place. Several studies have pointed out so far the significant distortion of the intra-regional terms of trade. Consequently, none of the development conceptions can lead to success, unless they are accompanied by perceptible local initiative and involvement which may prevent the appearing of a distorted structure.

4. Encouragement of local businesses

The entrepreneur and entrepreneurship are treated in a very simplistic way in the interpretation of today's conceptions according to which business ventures are motivated by advantages and possibilities which can be expressed exclusively in terms of money. Reality, however, is much more varied than that. The complex phenomenon of business ventures has also sociological, psychological and cultural linkage points.

Why does not the entrepreneur type turn up in a particular context? The explanatory force of limited capital supply and access to information is significant. Outstanding importance may be owed to information on account of the fact that joining the information stream of the world or a country has become a decisive factor of development. The pressure of accelerated decision-making may condemn to backwardness regions which are unable to get reliable information quickly enough. We can say that the costs of obtaining information are infinitely much higher in the regions driven to the periphery or being in a state of crisis than those in the centres. Therefore, it is impossible to interpret their competitive situation as a rule. The task facing the local governments is obvious. They should function as local development organizations in the capacity of a peculiar catalyzer enabling the population to become familiar with the economic and social processes of the world, that is, they should create the essential conditions by spreading innovation, since the building out of information systems is hardly conceivable on an individual basis. Inasmuch as it is conceivable, then the use of the obtained information will be individual as well. This, however, cannot bring about a solution either on the local or regional level.

The other limit is represented by the supply with capital. At this point, however, we have to give a more differentiated wording. We do not have the human capital but rather other factors in mind. It is undeniable that in launching or continuing businesses the majority of the capital injections are utilized with low efficiency. This

applies to nearly all the countries. The fault generally lies with the exaggerated extent of the physical capital investments of the small businesses. That is to say, in the beginning the majority of the small businessmen come up with a relatively low demand for capital, mainly in the form of working capital. Money or buildings are not a great help to them by all means. In addition to the working capital, however, assistance in the administration of the business and consultation would also be required. Similar is the case with obtaining the necessary management practice and marketing knowledge. Apparently, besides the small venture capital the local power or the local government is able to carry on an effective development policy if the providing of the indirectly indispensable business background (infrastructure) is recognized and ensured.

In our days the encouragement of businesses cannot be confined to the traditional form of capital aid any more. A local government aiming at achieving success regards as its task also the creation of institutions which are related to the business infrastructure in the widest sense. This does not imply merely some kind of physical background, but also human and informational conditions.

5. Initiation of local development

Since local development regards chiefly the population as the final resource of economic development and growth, this policy should rely on internal persons, groups and activities. This also results in the shifting of the main points of this policy as compared to the traditional regional policy. While the latter is mainly directed at large organizations and physical capital, the former should target the businessmen of small organizations and the human factor. It is inevitable that the system of means of the policy should be changed.

The solution of this issue is not so simple as it might appear at first sight because the changes are directed emphatically at the spheres of social existence outside the economy. That is, they affect an area in the influencing of which our experience is insufficient. It is not enough to ensure the conditions of development (access to information, promoting the qualifications of people) if the motivation required for the launching of businesses does not appear in the population. On the other hand, motivation may emerge as a result of the transformation of the skills, values and way of thinking.

A perceptible contradiction emerges if we examine this from the side of the state. The state grants may rarely aim at changing the behaviour of the population, at creating entrepreneurial spirit. This is so because it might have an impact only on the long term and through the formation of complicated relations. Consequently, the regional aid programmes which take into consideration quickly tangible results, may

assign only the role of transmission, „distribution” to the organizations of local development. The short-term interestedness may bring about only short-term resolutions to the problems. The errors of the conception supporting the up-bottom approach may be eliminated by the local development activity feeding on local roots.

We must not conceal, however, that the advantages of the conception based upon local development are its disadvantages at once. The long term means uncertainty, it can be measured less satisfactorily by the traditional economic indicators than the short term.

The objectives, instruments and evaluation possibilities of the local development policy are summarized in a comprehensive table (*Table 7*).

The three columns of Table 7 set increasingly complex aims for local development that are far away from immediate profitability. The relations in Column 1 are definitely close to the logic of the systems generally functioning at present. Column 2 already represents components of a new approach. It does not set the granting of financial aids as an objective, but aims at establishing a contact with the whole population by means of which entrepreneurial motivation may be created in the most suitable persons. In nearly all the countries this group is characterized as a rule by the fact that it has suitable organizations, but only at the national level, while the regional or local dimension rarely appears in their functioning. Column 3 sets the most abstract and ambitious goals. At the same time its system of means and feedback mechanism cannot be considered to be elaborated in the least.

Table 7

Tasks and spheres of activities of local development policy

	1. Foundation	2. Information	3. Stimulation
TARGET GROUP (Direct beneficiary)	Small business	Population in the wide sense	Social groups
MAIN OBSTACLE	Scarcity of capital	Lack of information, difficult access	Inability of region to organize itself, generating entrepreneurs
PRIORITIES	1. Financing 2. Information, training 3. Organizing and organization	1. Information, training 2. Organizing and organization 3. Financing	1. Organizing and organization 2. Information and training
MEANS OF IMPLEMENTATION	Quasi-banks Loans Aids	Professional training, grants, modern technologies in information transfer	Local development organizations
EVALUATION CRITERION	Planned profitability	Internal criterion of the supply with services	Heterogeneous criteria for generating long-term growth potential

A CHANGE IN THE FUNCTION OF THE REGIONAL DEVELOPMENT

In relation to the development of depressed zones the most uncertain point of regional /county/ policy, or rather strategy is in a paradoxical way just the county level, the role and possibilities, system of instruments of the counties. This uncertainty emerges not so much in formulating the tasks and the requirements of the responsibility, but when in connection with certain groups of questions the issues of the theoretical degree of freedom of regional decision-making come up and the extent to which it may be reduced by the available system of instruments. The other side of the question is the nature of the division of labour between the national, local /urban/ and county levels of the regional policy and strategy.

The crisis of the economic political and regional political mechanisms has created a rather absurd and ambiguous situation in the management of the crisis phenomena in Hungary.

The regional processes have been determined predominantly by a sector-based central economic policy in which the regional principle and interest were hardly taken into account. Within the regional policy the regional administration of the economic sphere and urban development were separated, too. The regional policy and scope of movement were practically restricted to settlement (urban) development.

In the emergence of the regional crises – that is, of the problem of the economically underdeveloped areas and the depressed zones – the macroeconomic processes and the central decisions played a decisive role to such an extent that the accumulation of the regional tensions have grown beyond the present framework of the regional administration by far by today.

The consequence of the absurdity and confusion of the existing situation is that in the solution of these territorial problems it is precisely the local and county levels which have the narrowest autonomy of movement and decision-making within the present institutional and regulating framework. Today it is simply impossible to develop specific areas and remove them from the deadlock without the decisions taken at the central government level. It is obvious that the phenomenon well-known from the past (namely the dependence of local action on central decisions) may recall echoes of past solutions in a lot of people, strengthening further the myth of the omnipotence of central intervention and injections. At the same time it can be seen that today the central administration, the „state” may undertake only to moderate the regional crises which are mainly of social character, it can manage crises only on the short term.

The tasks of developing and restructuring the depression zones will be faced decisively by the local and county level administration (the local governments) on the long term. The central state subsidies may be directed at achieving the socio-political moderation of the short-term tensions and indirectly at creating the framework and system of instruments in which the scope of movement of the local and county levels required for solving the tasks comes into being. Central government investments will not get a role in the structural changes of the depressed zones because there will be hardly any. But the local and county administration has to dispose of the incentive, supporting and regulative (in a word influencing) possibilities of the economic sphere, that is competence based on actual economic bases – according to the division of labour formed in the process of development – by means of which the restructuring of a region becomes possible on the regional level. There is no time and sufficient resources to leave everything to the economic automatism nowadays, on the one hand, because these automatism first should become comprehensive and consistent, on the other hand, because the existing critical situation would lead to losses aggravated by the regional differences, which would be inequitable and unfair with respect to the citizens of the adversely affected zones as well.

The transformation of the institutional framework, the system of tasks and instruments of the local and county administration is most likely underway owing to the reforms ripening these days, although in a form which can be predicted with difficulty for the time being.

From the aspect of active local (self-government) influencing the local-regional economy the basic elements of a regional „self-government-friendly” future concept might be outlined by way of a model as follows:

- property of communities (local governments), interestedness in the management of resources and property at the same time;
- real managing-enterprising possibility and ability for the local government („economic local government”);
- independent regional economic regulation which is in accordance with the responsibility of the local-regional policy (e.g. within limits possibilities to reduce or increase all kinds of taxes which bring in revenues;
- a regional system of banks and financial institutions (which greatly differs from the current system of commercial banks) including the varied system of funds and foundations, associations, partnerships etc.;
- regional business and information infrastructure with the complete abolishing of state monopoly.

Economic development, the appearance of new structural units would be greatly promoted by business infrastructure providing services (at the start on a non-profit but later inevitably on a business venture basis). This palette might be further

coloured by various social-civil organizations, development societies, foundations and funds (private or communal, domestic as well as foreign), associations, confederations etc., that is everything which has proved useful elsewhere in the world in the recovery of regions having faced a similar situation. Furthermore, the international relationships or informal links of the county and its settlements might also become a useful means, whether by resorting to exchange of experience or cooperation in specific fields.

A separate issue is represented by the regional system of banks and financial institutions. The currently existing commercial bank branches are not able to finance the local-regional business ventures because they are not interested in doing so and this is a grave obstacle. The establishment of a regional development-investment bank in the field of financing regional business ventures seems to be expedient in the long run. The demand for business venture funds having been created within the framework of the regional administration shows that there is a significant gap in the field of financing. Another argument for the establishment of an independent development-investment bank is the fact that the system of the necessary preferences and subsidies would function within a clear, inspectable but normal banking framework, with guarantees of return which are not provided by the institutional framework of administration and management despite the best of intentions.

The different formations of subsidies and subventions should not be concentrated by all means, but rather they should be transformed into transactions resting on uniform economic-financial bases in their functioning, the requirements and guarantees of utilization, or be diverted in this direction. In all probability calling for tenders, awarding and rational utilization would work more efficiently in such a system. In an optimal case a regional bank should be comprised of a great number of independent joint ventures and major responsible organizations or institutions directly interested in the territorial-regional development becoming participants as part-owners depending on their financial possibilities.

Restructuring, business and entrepreneurial actions having become necessary in the depression zones can be implemented by providing peculiar regional subsidies and preferences as mentioned above. This is a sphere which can take shape within the existing system only and exclusively through central state decisions, albeit the available information and interestedness at the regional-local level are greater. Most of these decisions are related to regulation and are, therefore, elements suitable for becoming objects of decentralization in the field of the formerly mentioned regional competence and regulation.

Concerning the instruments, functions of the restructuring and development of the depression zones, so far we have spoken mostly about the possible forms without taking into account the addressees, although the division of labour between the

concerned levels of administration is of great importance. The typically disproportionate role of the central (state) level obviously has to be reduced today. At the same time it should be considered, under what conditions of labour division between the regional and local (settlement) levels should decentralization and the development of the depression zones take place in the course of restructuring and crisis management.

Two factors have to be mentioned here because of their possible importance:

– in the foreseeable future rapid progress towards a regional and local government is highly probable owing to the trend of the self-governing character of the local-regional administration: interestedness, information, decision-making ability and competence are shifted to the level of settlements, being concentrated there with the necessary instruments;

– in the developing-restructuring process of the depression zone, the core region of Baranya county – as we have repeatedly referred to it – Pécs and Komló, but Pécs in particular, will play a key role.

Unlike in the case of the economically backward areas, where weaker structuring, the atomization of the natural, artificial and development endowments do not allow for radical decentralization and the role of the county (regional) administration will continue to be of primary importance, in the management of the depression zones the majority of the development tasks and means should be gradually taken over by the local governments of the settlements concerned. The point at issue is not the withdrawal of the regional level because it would be impossible on account of the impacts and relationships of the regions, but it is the reduction of its role in the form of such an efficient cooperation between the towns and the county where the development programmes affecting the towns – and presumably the majority of the programmes will be like that – will become the task, responsibility and possibility of the local (town) governments. The existing and new competences, decision-making licences, material-financial means which have been or will be decentralized should be assigned accordingly. We are convinced that concerning the possible ways of the development of the depression zones as well as the methods and tasks of restructuring, a division of labour in this manner might release further energies for organization, development and management. It would harmonize better with the nature of the expectable processes, creating more direct relations of interestedness, in brief, it would create a complex, more favourable situation and mainly a fair chance to recover from the crises.

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