

**CENTRE FOR REGIONAL STUDIES  
OF HUNGARIAN ACADEMY OF SCIENCES**

**DISCUSSION PAPERS**

**No. 39**

**The role of the State in the urban  
development of Budapest**

**by  
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**Series editor**

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**Pécs  
2002**

*Research financed by SOROS Research Support Scheme program,  
RSS No: 359/1999.*

ISSN 0238–2008

2002 by Centre for Regional Studies of the Hungarian Academy of Sciences  
Technical editor: Ilona Csapó, Zoltán Gál  
Typeset by Centre for Regional Studies of HAS Printed in Hungary by Sümegei  
Nyomdaipari, Kereskedelmi és Szolgáltató Ltd., Pécs.

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## 1 Introduction

Under socialism, the central state was practically the sole initiator of urban development in Budapest. The dominant position of the central government was characteristic of the city's entire history, from the 'creation' of the modern Hungarian capital in 1870 until the end of World War II. After the 1989 transition, two main factors influenced the traditional role of the state in the urban development of the capital.

The first, and perhaps more evident one, was the political transition from a heavily centralised one-party system, based on the monopolistic position of the central state, to a pluralist and democratic one. Transformation was characterised by the re-establishment of local democracy and its administrative organs as well as by the complete legalisation of private ownership since 1990. Decentralisation led to the state relinquishing its exclusive role in the economic and the political decision-making process.

The second phenomenon that influenced the state's role in the urban development of Budapest is related to international factors: to the new role of metropolitan areas and the changing relationship between the latter and their respective nation states in an increasingly global world. The analysis of this process has helped us to formulate the hypotheses that shall guide our study.

### 1.1 Analysis of the relationship between urban areas and nation states

What is the effect of globalisation on nation states? Will they 'disappear'? To what extent will national governments lose influence in the face of ever more influential supranational organisations? Will nation states remain the basic units of the world political and economic structures and will central governments keep their traditional decision-making powers? According to one opinion that frequently surfaces in contemporary French literature the weakening of the nation state goes hand in hand with so-called 'de-territorialisation'. In this view, the economic power of multinationals has resulted in the transformation of traditional networks of 'solidarity', which are less and less related to 'territory', i.e. to national boundaries. This phenomenon may lead to the disappearance of the state as an entity based on networks and interests related to a national territory (*Badie, B. 1995*). In order to maintain their political and economic competitiveness besides multinationals and non-governmental organisations, national governments are forced to establish their

own international associations. In this sense, nation states themselves contribute to and legitimise 'world-wide disorder' (Baugenard, J. 1998).<sup>1</sup>

However, it seems that the changing role of nation states and of national governments has to be considered in a more balanced way. Although nation states have to face several challenges brought up by economic globalisation, these lead to the weakening of state sovereignty (as regards, for example, certain economic decisions) but not to the disappearance of the state as an institutional, political and even economic entity. Multinational enterprises and nation states stand in a reciprocal relationship, and, as Holton argues, 'MNEs remain dependent on nation states for certain types of resource in a range of circumstances' (Holton, J. R. 1998: 93).

Nation states are not disappearing. In fact, many studies appear to disprove the 'de-territorialisation' theory, as, for example, that of Keating, who points out that the share of public spending in the GDP did not decrease in developed countries, even during the 1990s (Keating, M. 2001). Although nation states have maintained themselves, one nonetheless observes a fundamental weakening of their position. They have lost the 'monopoly' of decision-making power in the political and economic arenas: 'while the nation state is far from being finished, there is a good reason to doubt that states hold the monopoly of power within the politics of globalisation. A number of theorists see globalism as a multi-actor system rather than an interstate system...' (Holton, J. R. 1998: 107).

The end of the monopolistic position of central governments in these regards generates new methods of public intervention, which strengthens the role of different types of public/private co-operation. These reflect the restructuring of public intervention and public investment in the urban development of metropolitan areas.

While globalisation has a weakening effect on nation states and on their central governments, it has a strengthening effect on the development of large urban areas. As Saskia Sassen has shown in 'The Global City' (Sassen, S. 1991), the economic and urban growth of large metropolitan areas is related to the same phenomenon that diminishes the importance of nation states. Put simply, over and beyond states, large cities serve as headquarters for global (multinational) enterprises, become the nodes of global economic processes, and accommodate new urban functions and urban hierarchies. Sassen has considered the three cities she defines as global, namely London, New York and Tokyo, and places at the top of the urban hierarchy. During the 1990s, several other studies attempted to define a hierarchy

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<sup>1</sup> According to Baugenard, this disorder would imply the complete disappearance of all institutional political organisations that are normally based on the nation state. Pulsation of the market would get complete freedom and nothing would save us from the absolute victory of 'McWorld'...

of cities on a European or on a world-wide scale (Hall, P. 1993; Beaverstock, J. V.– Smith, R. G.–Taylor, P. J. 2000). All show that cities increasingly depend on new international functions in order to preserve their autonomy vis-à-vis nation states and their central governments. (Obviously, the importance of these international functions, and therefore the independence of these cities from the central government intervention, vary according to the size, traditional international roles of the cities and other criteria.) The position of these cities in the international urban hierarchy depends as much on their economic and functional competitiveness as on their economic and political position in their countries.

After the collapse of the Iron Curtain, the largest cities in Central and Eastern Europe were integrated into the international urban hierarchy (Enyedi, Gy. 1998). This phenomenon foremost concerns the capital-cities such as Prague, Warsaw or Budapest. In the former socialist bloc, these cities emerged as the foremost beneficiaries of political transition and globalisation, as they received the highest concentration of foreign investment in real estate and the economy at large. These capitals are international hubs that prevail over the remaining regions of their countries. (The GDP/capita stands at 125% of the national average in Prague, 170% in Warsaw, and 181 % in Budapest (Horváth, Gy. 1998). This position assures their economic autonomy with regard to central government.

How do the new international (global) roles of capital cities influence their position against the central government? The capital, especially in heavily centralised countries, has historically been the 'symbol' of the nation state. Particularly since the 19<sup>th</sup> century, its political position was reinforced by its economic power. 'Because until recently decisions were made nationally, the capitals of these nation states became the logical centres of everything: government, commerce, finance, transport, higher education. ... And the different elements of the system reinforced each other, creating a pattern of circular and cumulative causation' (Hall, P. 1993: 884). The capital's pre-eminence becomes a major political asset for the central government. However, the capital as a city is a distinct economic and social entity, with its own rules and actors. During the history of strong nation states, the relationship between the central government and the capital was based on the permanent interaction between them. Yet, both entities exercised strong economic and political influence on one another, whereas the central state always kept its power of decision over the city through urban planning and regulation, urban investments, fiscal redistribution etc. It is evident that the weakening of the state's position has transformed this relationship, albeit to a different extent depending on the power of each central state.

At the beginning of the 1990s, in Budapest, the combined effects of political transition and of globalisation fundamentally changed the status of the capital within the nation state. This transformation reflected the lack of economic, political and social stability that emerged in the wake of political transition. In Hungary, as

in other central European countries, basic 'democratic' reforms (administrative reform, privatisation...) resulted in a fragmented institutional structure. Considerable economic and political authority has been transferred to local decision-making bodies and to the private sector. This tendency reinforced the political power of the capital, while the effects of globalisation increased its economic autonomy with regard to the state.

The aim of our study is to analyse how the traditional role of the central state has been transformed in the urban development of Budapest. In section one, the new and reinforced central position of the capital and its effects on the general political atmosphere will be considered. In section two, the retreat of the state from the fields of urban management and policy-making (administration, taxation) will be described. In the final section, new forms of state investment and intervention in urban development will be analysed on the basis of two case studies of important, state-initiated urban projects in Budapest.

## **2 Budapest, the very Centre of Hungary**

### **2.1 Economic, Social and Urban Development during the 1990's**

Since its creation as capital-city at the end of the 19<sup>th</sup> century, Budapest was traditionally the very centre of Hungary. Under the Austro-Hungarian Empire, it was developed into the second hub, after Vienna, and became a pole of attraction for the south-eastern regions of the Empire and the Balkans. With the collapse of the monarchy and ensuing territorial losses for Hungary, Budapest remained in effect the only major city in the country. Under socialism, the capital kept its strong central position despite the implementation of state policies intended to expand the secondary urban poles. In the course of its history, Budapest was always 'closer' to the development patterns observed in Western countries; it was more open and more international than the other regions and cities of Hungary. Apart from its institutional and national functions, the capital served as a 'gateway', absorbing international influences and mediating the modernisation trends that then came to affect the rest of the country. After the 1989 political transition, Budapest was the first and most evident 'winner' of economic transformations, and these processes increased the differences between the capital and the rest of the country.

Table 1

*The Central Position of Budapest in Hungary at the end of the 1990's  
(Hungary=100%)*

	Budapest	The rest of the country
Population in 2000	18% (1,8 million) (525km <sup>2</sup> )	82% (10 million) (93 000 km <sup>2</sup> )
GDP in 1995	33.4	66.6
Number of enterprises with foreign capital	51%	49%
Foreign Investments in 1995	52%	48%
Number of full-time students in college or university in 1998	43%	57%
Number of employees in main urban centres in retail, communication, tourism, financing and real-estate	63%	37%
Number of employees in R+D in 1997	53%	47%
Number of research institutes in 1997	44%	56%
Unemployment rate in 1998	3.6%	9.1% (the whole country)
Number of employees in administration	51%	49%
International air transportation	100%	0%
Number of enterprises	29.7	70.3

*Source:* KSH, Horváth, Gy. 1998.

Beyond recalling the sheer numeric weight of the capital's population, this table illustrates the structural preponderance of Budapest with regard to the rest of the country. No other hub in Hungary disposes of the basic infrastructures required for international exchanges. For example, Budapest is still the only city in Hungary served by an international airport. Equally, the capital occupies an exclusive position as the centre of 'knowledge bases'; it is home to the lion's share of Hungarian institutions of higher education, research and development. This entails a high concentration of foreign investments and of employees in the service sector, a process

itself induced by the international opening of the country in fields such as communications, tourism, real estate, etc.

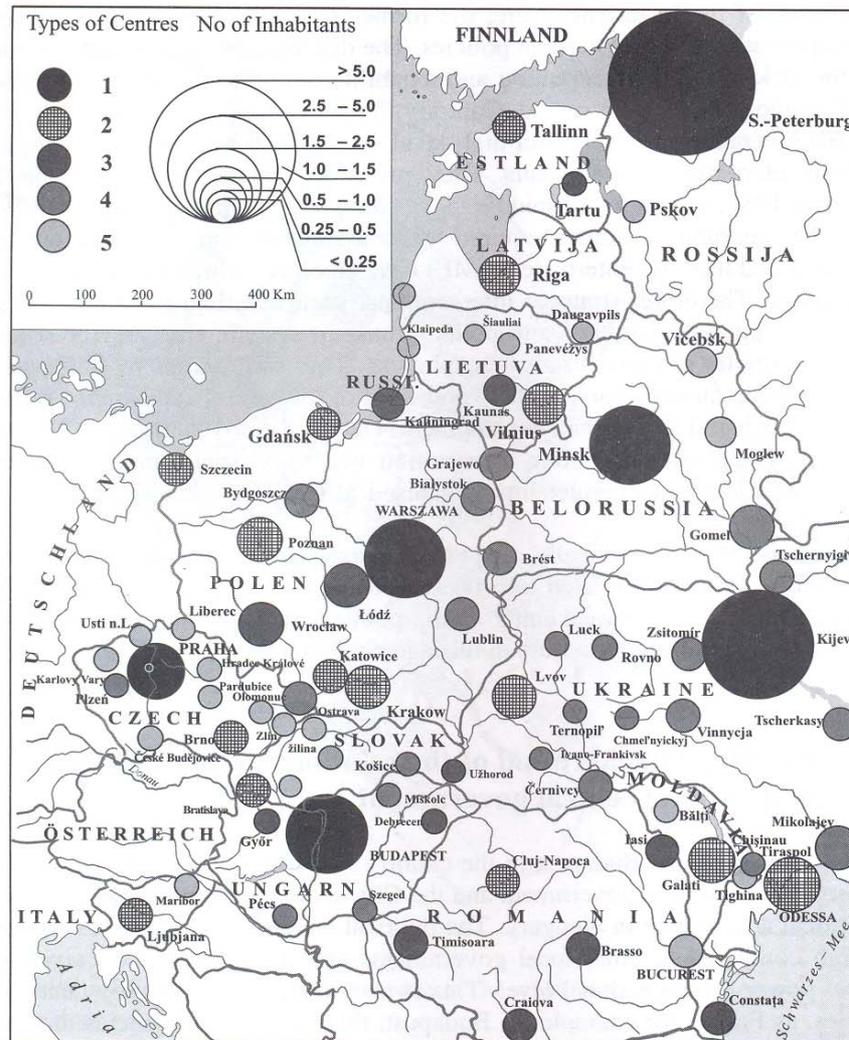
The pre-eminence of Budapest is further reinforced by the persistent lack of a network of medium-sized cities in Hungary, which could compensate this preponderance. Indeed, the second-largest city in Hungary, Debrecen, claims only 200,000 inhabitants as opposed to Budapest's almost 2,000,000. This asymmetry is also visible if we analyse the characteristics of the Hungarian urban network in the broader Eastern European context. While Budapest figures among the major cities in this part of the continent, with Warsaw, Prague and Kiev, medium-sized, regional centres such as Brno in the Czech Republic or Krakow in Poland are not to be found in Hungary (*Buchholz, H. J.–Grimm, F.–D.* 1994). The prominent position of Budapest is thus based, on the one hand, on the concentration of demographic and economical resources and, on the other hand, on the gap which prevails between Budapest and the other cities and regions of the country.

Budapest is 'one step ahead' of the other cities of Hungary in terms of urban development. During the 1990's, the major transformation in urban development in Hungary was the acceleration of suburbanisation. The phenomenon has characterised Budapest since the very beginning of the transitional period (and some signs were even visible during the socialist era). In contrast, it is just beginning in other cities. During the 1990's, the population diminished in Budapest and in the country as a whole, with the exception, however, of the settlements surrounding Budapest (*Daróczy, E.* 1999). (Between 1990 and 1999, Budapest lost 9.7% of its population, while the number of inhabitants in the 78 surrounding settlements increased by 8.8%. Over the same period, the population of the country decreased by 2.3%.) Suburbanisation was further encouraged by the strong economic development of existing settlements. Because of the availability of large green-field sites in the agglomeration belt around Budapest, green-belt investments were more attracted to that zone than to the capital itself (*Barta, Gy.* 1999). By the 1990s, an unbroken economic and residential agglomeration zone had formed around the capital.

The spectacular international development of Budapest led to the spatial restructuring of the city itself, with the revitalisation of some neighbourhoods that occupy 'strategic' positions. The privatisation and the restructuring of former state industries, the installation of international firms, banks, high-level services etc. have fundamentally transformed the urban landscape of Budapest. The capital is now flooded by new urban developments: office buildings, shopping centres, industrial and technological parks, (luxurious) residential complexes and buildings. New urban nodes and functional zones emerged as a result of economic transformations, entailing the enlargement of the city-centre and the regeneration of some former industrial zones as venues of high-level tertiary activities. The latter are at strategic points in the capital, along the main roads leading to the most important motorways or by the riverside

Figure 1

*Urban network in Central and Eastern Europe*



Key: 1 – capital-cities with international functions; 2 – capitals of smaller countries or cantons; 3 – important cities with specific international and/or national functions; 4 – regional centres, with only national functions; 5 – political and administrative centre of counties.

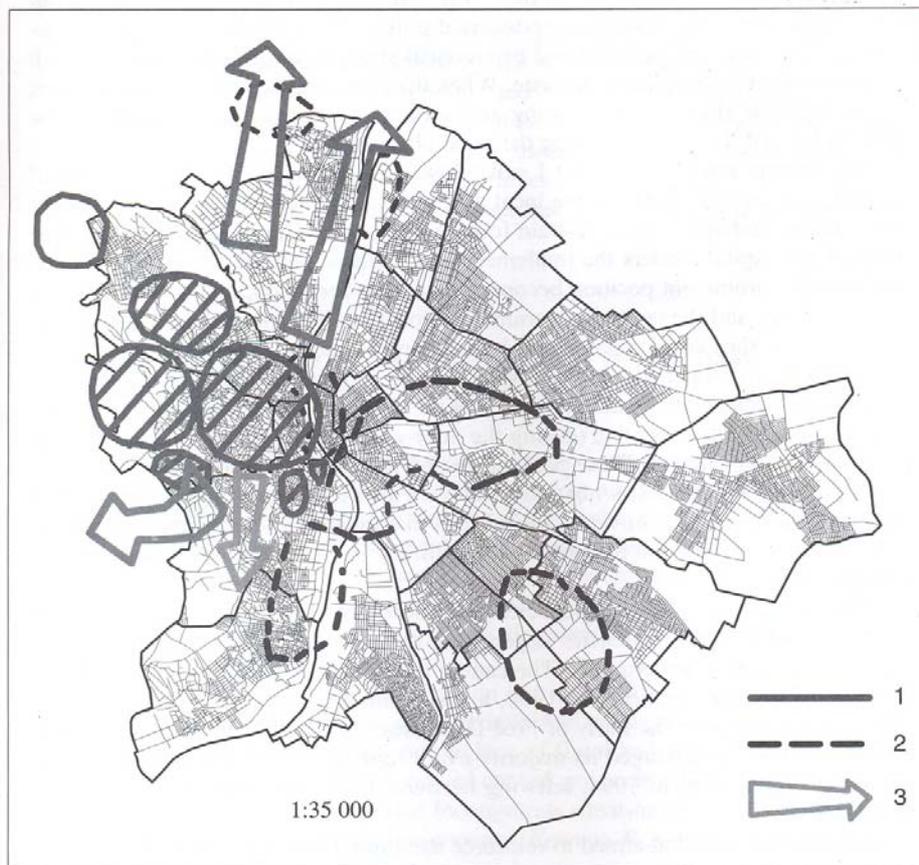
Source: Buchholz-Grimm, 1994.

The prosperity of Budapest hides, however, uneven urban development. During the 1990's, the appreciation of sites in certain 'winner' parts of the city stands in contrast to the depreciation observed in other neighbourhoods. Degradation concerns foremost the historical centre, the former industrial lots and most housing estates, products of socialist urban policies. The degradation of these areas resulted from the lack of public intervention and rehabilitation projects during the socialist as well as the post-socialist period. Contrary to the 'winner' neighbourhoods, these areas have benefited neither from high-level tertiary and residential development nor from international investments. They suffer disproportionately from the fact that, since 1989, only a small middle class emerged, which has proved unable to muster the economic resources required for local regeneration. Likewise, no stable local small and medium enterprises (SME) have emerged, which could sustain such regeneration. Therefore, strategic interventions, such as urban rehabilitation programmes, integration into the metropolitan transport system, etc., may be required to improve the lot of these disadvantaged areas. The 'slum' areas of Budapest are the most visible manifestation of the withdrawal of the central state and of the public sector in general from urban development. During the 1990s, the lack of central subsidies and of strategic public intervention was only occasionally counterbalanced by public-private partnerships organised at the very local level of the districts.

During the 1990's, practically all phenomena observable in the urban restructuring of Budapest were related to private-sector investments and initiatives. This was accompanied by the weakening of the public sector and by the abrupt withdrawal of the central state from urban management and planning.

Figure 2

*'Winner' and 'loser' neighbourhoods in Budapest*



Key: 1 – 'Winner' neighbourhoods; 2 – 'losers': the rehabilitation areas; 3 – new development axes.

Source: designed by the author, 2001.

Source: designed by the author, 2001

## **2.2 The political background of the relationship between the capital and the central government**

The unique position of Budapest in the country is also a reason why the relationship between the central government and the City is an important factor influencing the political atmosphere in Hungary. The political weight of the capital is traditionally high compared to other local governments and its mayor is conceived as a political power on the national level. This is true in general in heavily centralised countries, as France for example. In Budapest, there are two tendencies that alternately determine the political relationship between the capital and the central government. These tendencies are rooted in the historical development of Budapest, and though they were more or less 'put aside' during the socialist regime, they 'automatically' re-appeared in the 1990s.

The first tendency is what I call 'opening' policies. In this case, the aim of central policies is to open the country to foreign, especially western influences. As the capital-city acts as a gateway to the West, supporting its economical and urban development is at the core of governmental policy. State supports strongly the urban development, the political and economical strengthening of the capital, which increases its autonomy from the state. When the capital and the central government are in political alliance, the growing autonomy of the capital is acceptable to the state as both of them are following the same objectives.

The second tendency is what I call 'closing' policies. In this case, the aim of central policies is to reinforce the local and national socio-economic capabilities of the country, and in doing so, restrain foreign influences. The liberal and open character of the capital hinders the implementation of these policies. Thus the capital's traditionally prominent position becomes the reason for its opposition with the rest of the country and the central government. Closing policies intend to increase central control in the capital, particularly by reducing municipal autonomy.

Traditionally, 'opening' policies were followed by central governments with a more liberal (left-wing) political course, while 'closing' policies followed the more conservative (right-wing) line (during the inter-war period, they were coupled with nationalistic tendencies). These policies altered face to the City of Budapest (hereafter 'the City') where left-wing traditions were always stronger than at the level of the ruling central governments. During the historical development of Budapest, state always remained the dominant party with the power to influence the capital's powers.

'Opening' and 'closing' tendencies were both presents during the 1990s. The alternation of the two tendencies depends on the political majority controlling the City and the central government. The capital has maintained its left-wing tradition. Since the first free elections, in 1990, a liberal majority has governed Budapest. The mayor belongs to the Party of Free Democrats (SZDSZ). Meanwhile, the

central government has changed its majority every four years: it was rightwing during the period from 1990 to 1994, leftwing between 1994 and 1998 and again rightwing since 1998.

Opening policies that aimed to reinforce the capital were present in the second, leftwing legislature. In order to restore economic stability, the socialist-liberal government sought to open the country to foreign, international investments alongside massive privatisation. As the capital is at the core of the country's international standing, state projected and directly subsidised several large investments (a new metro line for example) in order to support the metropolitan development of Budapest. This was the period when an institutional relationship was developed between Budapest and its metropolitan area. Opening policies of this period contributed heavily to the strengthening of the economical and political autonomy of the Budapest Municipality.

The conservative government that was elected in 1998 introduced inverse policies. Its objective was to create a stable middle class in Hungary with reinforced local small and medium enterprises. The policies of this government with regard to the capital show the signs of 'closing' tendencies. The diminishing of state subsidies and the exclusion of the capital from the scope of regional policies reflect a counter-reaction to the enhanced economic and political authority of the City.

This political background appears several times as one main reason for changes in the state's role vis-à-vis the capital. It is sometimes difficult to understand the 'real' situation that underlies them. Nevertheless, in this research, I have tried to draw conclusions on the general phenomena that are characteristic for the 1990s, independently from political preferences.

### **3 The Withdrawal of the State from the Urban Management of Budapest**

In Hungary, as in most Central European countries, one basic element of political transition was the restitution of local government as a main element of democratic political structures. The weakening of the state's roles in these countries is to a large extent related to the abolishment of the monopolistic position of the central authorities. As a result, local responsibility and decision-making obtained a disproportionate weight in the decentralisation process. Civil organisation and the self-management of local societies emerged as the alternative to formerly centralised political structures (*Kende, P. 1997*).

It seems, however, that decentralisation did not really weaken central government, rather the intermediate, second-tier levels of management. Local authorities obtained wide-ranging autonomy, but the lack of fiscal and administrative power at second-tier echelons, left in the hands of central government the possibility of direct intervention in local issues. This incongruous situation put in danger the effectiveness of the entire decentralisation process (*Bennett, R. J. 1998; Pálné, Kovács I. 1998*).

These arguments prove that the transformation of the state's roles in post-socialist countries presents a contradictory picture: on the one hand, one observes a notable weakening of central authority, on the other the persistence of a state-centred political structure. Yet, in the case of Budapest, the picture is clearer: the state has almost fully withdrawn from urban management. This reflects the special political and economic position of the capital in the country. In the following section, the main aspects of the state's withdrawal from the urban management will be considered: the decentralisation of the capital's administrative system, the transfer of state property to the local governments of Budapest, the decreasing role of central subsidies in the municipal budgets and the place of Budapest with regard to Hungarian regional policies.

### **3.1 Decentralisation in Budapest: the creation of a multi-tier administrative system**

In Hungary, decentralisation was prescribed by the 1990 Act on Local Government. This act created local governments entitled to decide upon local issues, to own estates and to manage their own budget, derived partly from their own income and partly from local taxes and other revenue. The law also defined municipalities' obligation in the fields of education and the maintenance of basic infrastructures.

In Budapest, this law created a complex and fragmented administrative system. The capital was managed by 23 autonomous local governments, of which the Municipality of Budapest was just one. (At that moment, Budapest was divided into 22 districts and, in 1994, a 23rd district was created.) All district councils in the capital were instituted as elected bodies endowed with the same rights and prerogatives. But, while the districts gained responsibility over local duties, the central municipality was allocated more 'general' tasks, which concerned the whole of Budapest. Although this system fitted in with the principle of weakened second-tier echelons, in the case of the capital it proved impossible to manage. While, for example, the Municipality of Budapest had to maintain and develop the main infrastructures and roads in the capital, the diversity of political and urban interests of the different subdivisions excluded any coherent urban development and planning.

In 1994, a new administrative reform was introduced in order to reinforce the second-tier levels of administration. This reform aimed at strengthening the Municipality of Budapest, which in effect obtained increased powers over the districts. The Municipality of Budapest thus acquired a unique position in the country, having been granted the attributes of a regional-territorial authority, comparable to those of a German Land. The administrative power of Budapest became greater than that of any other local government in the country (*Perger, É. 1999*).

Yet, the exclusive position of the capital masks a very contradictory political situation. The 1994 reform did not impinge upon the local autonomy of Budapest districts. The latter retained their local powers, and their political interests continued to hinder municipal decision-making. Districts also kept basic rights such as the allocation of construction permits and the definition of local priorities, which transformed urban planning and strategy making into a permanent political debate between the districts and central municipality. The autonomous position of the districts therefore limits heavily the political power of Budapest Municipality. The political interests of the ruling government further complicate the situation. At four-yearly intervals, the political composition of local and central governments changes, which alters the political landscape of the capital (following the political tendencies described above). As a result, central government is free to exploit rivalries between the districts and the City. The management of Budapest is hence still highly politicised and depends strongly on party preferences.

### **3.2 The withdrawal of the state from real estate ownership and urban planning**

Another important aspect in the establishment of 'local democracy' was the ascription of fiscal assets to municipalities. Before 1989, all urban lands, infrastructures and other real estate properties were owned by the state, and local councils had only the right of use. The transfer of these goods from the central government to municipalities in 1990 was essential to ensure the economic and political autonomy of local governments. In the case of Budapest, district councils received all the public housing stock. That means that 52% of the total housing stock of the capital became municipal property – and an important share of this stock was constituted by large housing estates in the centre, i.e., in the most disadvantaged neighbourhoods of the city. The Municipality of Budapest meanwhile received all the large urban infrastructures and the companies related to urban services (the Budapest Gas Company, Budapest Transport Company, etc.). The roads and other public spaces were 'divided' between the districts and the capital: main roads were attributed to the latter, secondary roads to the districts.

The newly acquired properties served as a fiscal basis for municipalities who launched a privatisation process. Privatisation of housing accelerated the re-establishment of housing market, but it did not really help the district councils to ensure their financial stability. The conditions of privatisation prescribed by law defined sale prices well below the market value of flats. Tenants could buy the flat they occupied for a relatively low price and sell it afterwards for a price often ten times higher (Cséfalvay, Z.–Paal, M.–Lichtenberger, E. 1995; Bodnár, J. 1996). Meanwhile, the maintenance of the buildings remained the duty of the local councils. The transfer of the housing stock also had another important consequence on the development of Budapest: central government has disengaged itself from the field of public housing policy for almost one decade. Districts have but few possibilities to acquire public revenues for rehabilitation and construction; they too have thus completely withdrawn from the management and financing of public housing. In 1994, the Municipality of Budapest created a housing rehabilitation fund, but could only allocate very limited financial assets for this purpose. State subsidies mostly encourage the construction of new housing. The districts are therefore obliged to recur to public/private partnerships for housing construction undertaken on public land.

In the mid-1990s, the Municipality of Budapest launched the privatisation of the large utility companies: between 1995 and 1997, three main companies have been privatised: gas, sewage and water. According to the contracts, the Municipality kept the majority of shares in every company. The maintenance of infrastructures and service became the duty of the new owners, while further development has to be supported by the Municipality. The main difference between this privatisation to those undertaken by the districts is that the former allowed the City to constitute an important fiscal reserve. This reinforced its economic autonomy and may strengthen its position in political conflicts with the central government.

Decentralisation and property transfers also deeply transformed the conditions of urban planning in Budapest. Until the political transition, urban planning was part of central planning since all lands and utilities were owned by the state. As a result of the creation of autonomous local governments, planning became the joint responsibility of the City and the district councils. Also, methods of planning have changed. Formerly, simple land-use master plans were prepared that set out precise conditions for the further development of the capital. In the 1990's, these were replaced by strategic urban planning: the Municipality of Budapest prepares the structural development conception while the districts define detailed land used plans. Thus, the latter are responsible for the allocation of construction permits, which gives the districts huge power in urban development. Moreover, the detailed plans necessary for granting the construction permits were largely prepared in many districts before the development of any strategic conception by the central Municipality. (In fact, it is several times a necessity for the districts: they have to

give quick answers to the demands of new investors.) Concerning urban planning, it seems that political transition did not only lead to the complete withdrawal of the central state, but, as a result of the fragmented structure of local authorities, it induced the weakening of the whole process.

### 3.3 Fiscal policies

The transfer of urban utilities and the withdrawal of the state from urban planning certainly reinforced the autonomous position of local governments in the urban development of Budapest with regard to the central state. The state kept, however, strong political influence through an otherwise quite complicated fiscal system in the capital.

After 1989, fiscal policies were radically transformed. The socialist system based on central redistribution, where state subsidies were allocated according to tasks that were set out by central planning authorities. After 1990, that has changed, and levels of state subsidies are since established according to quotas defined on the basis of the operating costs of municipal institutions.

While the transfer of property increases the economic autonomy of municipalities, one observes a general decrease in central government subsidies allocated to local governments in order to meet their obligations. This tendency is apparent throughout the country, but Budapest is still in a favourable position compared to that of other local governments:

Table 2

*Part of Normative State Subsidies in the Total of Functional Expenditures  
of the Municipalities (%)*

	City of Budapest	All Hungarian municipalities
1993	60,3	48
1997	42,8	32
1999	25	27

Sources: Ministry of Interior, TÁKISZ.

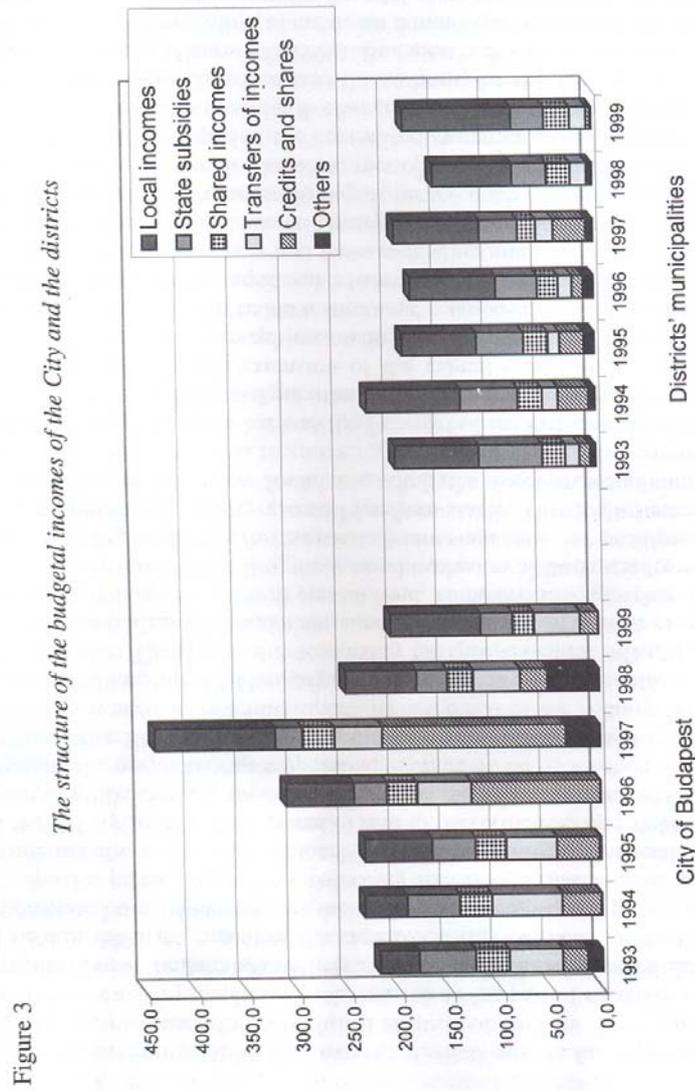
The table shows that normative state subsidies do not suffice to compensate the total of functional expenditures borne by the municipalities. The latter are therefore obliged to cover the remaining share by their own income, from local taxes and other sources such as the returns of the privatisation of transferred properties (for instance, housing stock). The favourable position of the City during the 1990s was

attributable to a larger concentration of institutions and infrastructures of national importance than in other municipalities (even in the districts). Since 1999, however, the newly elected central government has withdrawn several special subsidies from the Municipality of Budapest: the most important cutback was the withholding of the subsidies allocated to the Budapest Transportation Company (representing HUF 2 billion per annum). The last line of the table shows the equalisation of the sum allotted to the City of Budapest and to other municipalities. This phenomenon masks an increase in political tension between the central government and the City since the 1998 elections.

The evolution of the structure of local councils' sources of revenue in the capital also reflects changing political conditions. Until 1997, the City developed an active fiscal policy. This tendency culminated in the years 1996 and 1997, following the privatisation of the main utilities (see above). The increase of local income in Budapest is largely attributable to the sale of shares and other properties in conjunction with a strong increase of income related to credit-policies. During these years, the capital was involved in several large urban investments undertaken hand in hand with the ruling central government then dominated by the same left-wing socialist-liberal party coalition as the City itself. (The two main investment projects were a fourth metro line linking Southern Buda to the north-eastern part of Pest and a new National Theatre in the very centre of Budapest.) In 1998, the newly elected, conservative government entirely rejected these investments and introduced new urban projects. The effects of political opposition on the part of the City have since further weakened its formerly active credit policy. As a result, since 1998, Budapest revenue decreased again, falling below its 1993 level. (*Figure 3*).

In Budapest, the district councils have developed more balanced fiscal policies. Income is based in large part on state subsidies and on local revenue. The latter's importance is attributable to the selling off of municipal land and real estate. In terms of fiscal policy, the districts have much less autonomy than other local governments. The two main local taxes, the professional tax and the tax on tourism, are collected and redistributed by the City according to norms and quotas defined on a yearly basis. Personal income tax, a source of revenue transferred from the central government, complements these assets of the City. In virtue of the administrative reform of 1994, which increased municipal authority, the City is fully entitled to define the criteria of income redistribution, though it can ask the opinion of the districts. Part of the income derived from these taxes is allotted to different City funds (rehabilitation fund, cultural funds, social funds), and the remainder is divided between the 23 districts and the City. In reality, the redistribution process is,

year after year, the object of intense political debate.<sup>2</sup>



Source: TÁKISZ database, 1993–1999.

<sup>2</sup> The City receives the larger share of this revenue: in 1996: 56%, in 1997: 59%, in 1998: 57% and in 1999: 69%.

### **3.4 The status of the capital in the country: the issue of a unified administration of the Budapest metropolitan area**

The special authority of the City over its districts and its fiscal privileges are important signs of the reinforced political position of the City. The capital's growing autonomy seems to provoke a certain reserve on the part of successive central governments. These 'fears' and conflicts result from the lack of a well-defined role of the state in the management of the capital. Current political conflicts have clearly demonstrated this. However, despite decentralisation, central government restricts the capital's prerogatives, thus balancing the latter's autonomous position. Yet, considering the importance of local revenue, government financial policies only affect the City to a limited extent. There is, nevertheless, one field in which the capital depends strongly on central decisions, namely that of regional policies and especially the question of metropolitan government.

During the 1990s, whatever the political colour of the central government, Budapest was treated as an 'entity apart' from the rest of the country. The capital, as the metropolitan hub of Hungary, was permanently excluded from national regional policies. The capital did not qualify for special central subsidies for regional development because it always attracted the better part of almost every other type of central funding (the cultural central fund, commercial fund, rehabilitation fund, etc.) (*Horváth, Gy.* 1998). But, the general exclusion of Budapest from the national regional strategies and the institutional system shows that the position and the roles of the capital in the country are still far from stable. This is illustrated by the fact that no solution has been found regarding the form metropolitan government should take.

This debate goes as far back as the first part of the 20<sup>th</sup> century, when the status of the first belt of industrial suburbs became an issue. The final response to this problem was the simple extension of the capital's city limits, in 1950, by the Communist party. After transition, analogous problems arose concerning the wider metropolitan area, which has no institutional relationship with the capital. Since the beginning of the 1990s, rapid suburbanisation created many economic and functional ties between Budapest and the surrounding area. As a result, the lack of an institutional relationship became an urgent problem. For historical reasons, there was no ready-made solution in Budapest for the issue of metropolitan government. Indeed, during the socialist era, the metropolitan belt had been cut off from the capital. After the collapse of the centralised system and the creation of local governments, it proved impossible to change in any way the administrative system in Hungary and to modify (decrease) the authority of the local governments of the capital's periphery (*Perger, É.* 1999). Budapest's city limits could not be extended again and it was impossible to create an administration responsible for the metropolitan area. Further, the centralised model of metropolitan government was

on the decline in Western Europe since the 1980s (*Barlow, M. 2000*). (The traditional two-tier system gave way to more fragmented forms of management, as shown by the suppression of the Greater London Council or the creation of the Ile-de-France region around Paris, which was itself divided into seven départements.) In addition, any measures towards institutionalising of the poles of attraction around Budapest could well have further reinforced of the capital's pre-eminence.

The establishment of an institutional structure for the metropolitan area was finally realised by the left-wing government that introduced the 1996 Act on Regional Development (the first act of this kind in the post-socialist countries). Special councils for regional planning were created in each county and, on a voluntary basis, by the regions, to co-ordinate County Councils. The Act did not define the territories of those regions, but made special mention of the Lake Balaton and Budapest areas. The latter included 78 outlying townships (designated by decree in 1997), and the capital with its 23 districts. In the two special regions, the creation of Regional Development Councils was made mandatory. The Metropolitan Council was created in 1997. The composition of the Council was well-conceived in that all the main actors in the field of spatial planning were represented: the central government, the City of Budapest, the districts, the metropolitan townships, and representatives of the private sector (economic chambers). This Council, however, had but little authority and resources. It could not mediate between Budapest and the surrounding communities and was thus not in a position to resolve major issues such, for example, as the management of common infrastructures. But at least it could launch the preparation of a development strategy for the whole metropolitan area, by promoting the interests of all actors in the large area it represented. The presence of representatives of the central government and the different ministries guaranteed the national relevance of this programme by ensuring that the Budapest metropolitan was duly taken into consideration in regional policy-making (*Perger, É. 1999*).

The fact that the City was only one of the actors represented in the Council evidently decreased the City's 'prominent' position within the metropolitan area. But, in contrast, the Act favoured the integration of the entire metropolitan area, and this in turn also reinforced the position of the capital.

In 1999, under the new, right-wing government, the 1996 Regional Development Act was modified in order to establish a regional structure along the lines of those created in the European Union. Seven statistical regions were created, along with corresponding regional development councils. In this new structure, Budapest and its metropolitan area are part of the Central Region, composed by the capital and Pest County. The Budapest Metropolitan Council was merged into the Central Region Development Council. While the creation of statistical regions was a necessary step towards European integration, it was also a step backwards as regards co-operation between the capital and the metropolitan

townships. Political tensions (e.g., the opposition between the left-wing mayor of Budapest and the president of the Region, appointed by the central government), have practically cut-off Budapest from 'its' region and therefore from a part of its metropolitan area.

During the decade of the 'transitional period' in Hungary, no real solution emerged for organising a metropolitan government of Budapest. This was even true when the Metropolitan Development Council was functioning. The authority of this council did not extend to the co-ordination of the municipalities administrative activities, financing, etc. Thus, at the metropolitan level, the capital's two-tier system (district councils and City) must deal with a suburban belt composed of completely autonomous municipalities. While the districts of the capital are in many aspects directly subordinated to the City, the municipalities of the suburban belt are more dependent on the fiscal and planning policies of the central government. Local municipalities in general agree that although decentralisation has had an unequivocally positive effect on local development, the withdrawal of the state has created an ambiguous situation, because it left behind a vacuum that is not compensated by co-ordination at the metropolitan level. In our questionnaire, the most frequently mentioned field of local management where this vacuum appears was financing: central subsidies do not even cover expenditure related to municipalities' mandatory tasks. Second was housing construction, social policies and basic communal tasks such as the operation of infrastructures, institutions, schools, etc. Third was the lack of co-ordination in spatial planning and in infrastructural investments even though these issues seemed to have been partly resolved in 1996.

#### **4 New Forms and Methods of State Investments in Budapest**

The general withdrawal of the central state from the urban management of the capital is also manifest in the field of urban investments. During the 1990s, the private sector came to dominate urban development in the capital while state intervention almost entirely disappeared. This stands in obvious contrast to the structure of urban development during the socialist system. However, even in the era of globalisation, the capital remains the most strategic point, the 'showcase' of the country. State initiatives for prestigious development projects thus remained concentrated in the capital, irrespective of political relationship between the central government and the City. Nevertheless, because of the growing competition on the land market provoked by the dominant role of international companies, central

government has had to develop new forms of intervention. During this decade, state participation in prestigious urban development projects gradually switched from an 'authoritarian' to an 'entrepreneurial' mode.

#### **4.1 The general withdrawal of the state from urban investments in Budapest**

During the socialist period, the state was the only actor in the urban development of Budapest. After 1990, private ownership was legalised and the country opened up to the flow of international capital at the same time as administrative decentralisation progressed through the creation of autonomous local governments. As a result, the central state became only one of many actors of urban investment and development.

Table 3

*Distribution of the Total Investments in Budapest*

	1992	1995	1996	1997	1998	1999
Total investment (in million HUF)	154,333	313,420	361,532	445,567	593,245	590,503
Registered companies	50.2%	68.6%	75.1%	71.0%	67.7%	67.0%
Central government investment	11.1%	10.0%	9.1%	10.7%	14.1%	13.0%
Local government investment	6.9%	6.9%	4.9%	8.2%	7.7%	7.0%
Investment by citizens	10.6%	8.1%	7.8%	8.5%	8.1%	11.0%
Others (individual firms, social security institutions, enterprises under legal transfor- mation, etc.)	21.2%	6.4%	3.2%	1.6%	2.4%	2.0%
Share of enterprises with foreign direct investments (of the total investments)	22.5%	43.8%	47.9%		44.9%	44.3%
Share of building in total investment	37.6%	40.1%	41.4%	40.6%	41.4%	39.6%

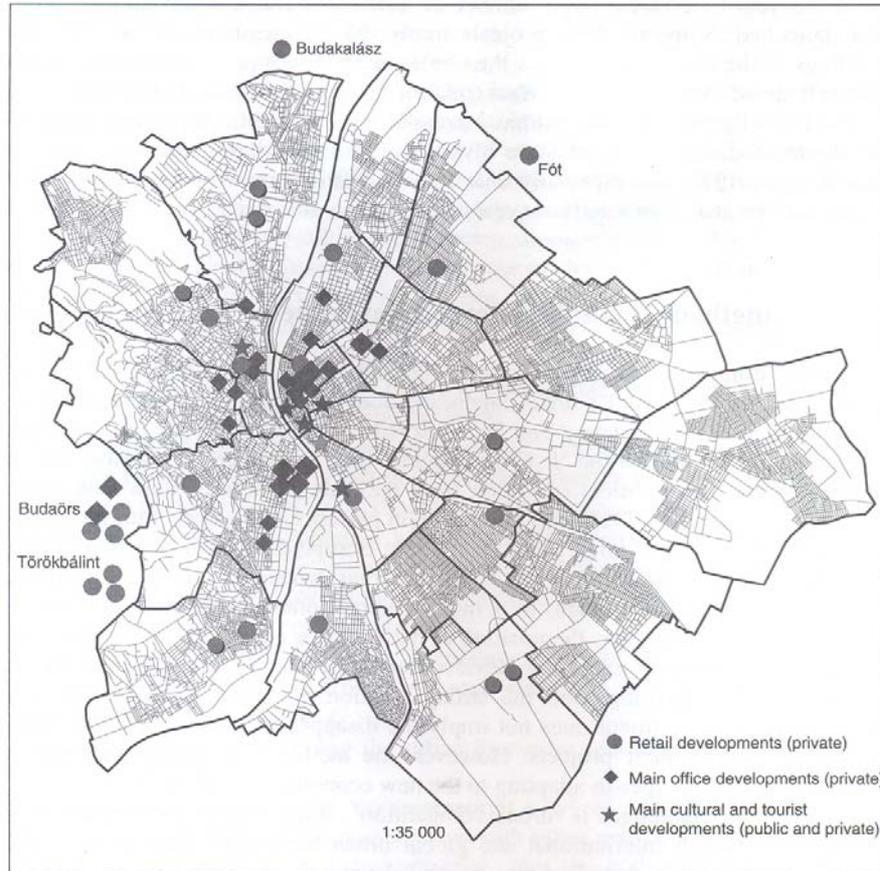
*Source:* Statistical Yearbooks of Budapest, KSH.

After 1989, the private sector's role in investment in the capital grew steadily: while only half of all investments were made by the private sector at the beginning of the 1990s, the proportion rose to more than two thirds of total investment by the middle of the decade. Meanwhile, the role of foreign capital has increased constantly: by 1996, almost half of all investment was made by foreign entities. The share of the construction industry, which is of particular interest to this study, has stagnated at around 40% from year to year.

Since the early 1990s, the re-emerging Budapest real estate market attracted several international real estate companies (Colliers International, DTZ, etc.), whose continued presence has had a deep impact on the urban restructuring of the city. The spread of their investments, which concentrated on commercial centre and office construction, had a mixed effect on urban development in Budapest. While in some neighbourhoods the influx of foreign capital sparked rapid urban regeneration, in others it resulted in the formation of a disordered landscape

Figure 4

*Main real estate developments in Budapest*



Source: Colliers International, 2001 ([www.colliers.com](http://www.colliers.com)) and author's collection.

The first wave of commercial construction concentrated on office buildings. Between 1990 and 2000, office construction totalled 600,000 m<sup>2</sup> according to Colliers International. At the beginning of the decade, the lack of modern office stock warranted this choice in the city centre. By the end of the 1990s, office construction was pushed further out of the city centre, to the so-called non-core areas (Colliers International, 2001).

1995 saw a new sector open to international investment, namely retail developments. The accelerated construction of shopping malls and megastores reached some of the central districts, but they appeared practically all over in Budapest. The most spectacular development, West-End City Centre, completed in 2000, was built by Tri-Granit, a Hungarian–Canadian joint venture owned by Sándor Demján. (It appears in our study as a firm operating in agreement with the central government.) In some of the former industrial outer districts (13<sup>th</sup>, 22<sup>nd</sup>, or 17<sup>th</sup>), the new shopping malls had an advantageous effect on urban regeneration as they created real centres for services and entertainment that were hitherto completely missing in these neighbourhoods. Besides an increase of local tax revenue, this was one of the reasons that led district councils, as well as the City, to support (or at least not hinder) the spread of these developments. In contrast, the outlying townships mostly attracted megastores. In these cities and villages concentrated retail construction generated important economic growth. The most spectacular development took place in cities such as Budaörs or Törökbálint, located at the western limits of Budapest, on the either side of the Vienna and Balaton motorways.

The third type of international investments is related to industrial developments such as warehouses and industrial parks. The majority is composed of green-field projects built outside of the city limits, where land is still available. The reinforcement of local economies in the metropolitan area is largely attributable to this type of investment (*Barta, Gy.* 1999). Substantial industrial areas in Budapest have been abandoned or are now occupied by smaller, mostly Hungarian firms.

Another type of private (international) ‘mass’ developments has been emerged recently. Tourism, which has been a major factor of economic growth, also highlighted the lack of infrastructure for the more sophisticated traveller, especially with regard to high-standard hotel and conference centre facilities in the capital. Since the year of 2000, a large number of new hotel construction projects have been launched. Some of these projects imply the reconstruction of magnificent buildings in the city centre such as the Gresham or New York Palaces, which had been left abandoned for decades (*Keresztély, K.–Ramond, I.* 2001).

The role of private investment has increased whereas public sector participation has diminished. The share of state investment is stagnating at around 10%, although, since 1997, and especially during 1998, a slight increase was noted. This means that the state continued to invest in the capital, albeit at a much lower level.

## 4.2 New methods of public intervention in the urban development

The highly dominant position of commercial and mostly international investment in restructuring the capital's urban landscape does not apply to the case of Budapest only. The same tendency can be observed more or less in all post-socialist cities, but in particular in the 'leading' capitals such as Prague or Warsaw, where rapid economic and political transition from the state socialist system took place after 1990 (Sykora, L. 1998). This phenomenon presents similarities with processes of urban regeneration in large cities of Western Europe and North America during the 1980s as a result of political and economic transformations (i.e., globalisation). We have elsewhere mentioned, in a more general context, that globalisation restricted but did not suppress the position of nation states and of the public sector in general in the course of economic development. The same can be said for public policies in urban development: the strong position of private and international capital in urban investment does not imply the disappearance of all publicly initiated urban development projects. However, the methods of public intervention underwent major changes in adapting to the new economic challenges.

One of these challenges is 'urban competition'. What will be the position of a city in the national, international and global urban hierarchy? Does it have any particular functions (such as London as a global economic hub, Brussels as the new political centre of Europe or Paris as a traditional cultural centre of the Continent...) to be developed in order to maintain its attraction with regard to other cities? Or, if not, what potential advantage does it have that can be developed in order to obtain a particular 'niche' position? Attracting enterprises, investments and tourists in order to improve the competitiveness of the city has to be the foremost objective of urban politics.

The other challenge for policy makers is the weakened economic position of the public sector. The withdrawal of the state from traditional urban planning, subsidies and general forms of urban management was a particularly rapid process in Budapest. But, in a doubtless less abrupt manner, this occurred in Western Europe as well during the 1980s. The decline of the welfare system, the decreasing economic and fiscal prerogatives of nation states forced municipalities to use local resources and to build up partnerships (Kozma, G. 1995).

New practices in public policy making have evolved from entrepreneurial methods and have been transposed to the context of urban development. 'City marketing' thus aims at 'selling' a city in order to improve its competitiveness on the 'market' of cities (Kozma, G. 1995). The even broader term 'entrepreneurial city' is applied to every manner of entrepreneurship, such as innovation, capital accumulation, opening of new markets, etc. (Jessop, J.-Sum, Ngai-Ling 2000). In all cases, public authorities adapt their urban policies to the methods of the private actors and entrepreneurs in the field of urban development.

According to Jessop and Ngai-Ling, there are five fields where entrepreneurial innovation of urban policies can occur:

- the introduction of new types of urban place (technopoles, intelligent cities, cross-border cities, multicultural cities, etc.);
- new methods of space or place production to create location-specific advantages for producing goods/services or other urban activities (the installation of new physical, social, and cybernetic infrastructures, etc.);
- the opening of new markets – whether by place marketing or by modifying the spatial division of consumption through enhancing the quality of life for residents, commuters, or visitors (e.g., culture, entertainment, spectacles, new cityscapes, gay quarters, gentrification);
- finding new sources of supply to enhance competitive advantages (finding new sources of funding from the central state, EU, inward investment, patterns of immigration, etc.);
- reconfiguring or redefining the urban hierarchy and altering the place of a given city within it.

In the definitions used for ‘entrepreneurial city’ or ‘city-marketing’, ‘city’ means the local government in co-operation with other actors. The authors underline that ‘although behind the entrepreneurial cities the collective coherence of a wide range of actors is necessary (branches of central and supranational governments, non governmental associations and organisations, private-public partnerships, etc.), entrepreneurial strategies are heavily dependent on “mayoral leadership”’. He adds also that ‘the capacity to pursue entrepreneurial strategies and the sort of strategies that are likely to be pursued will clearly depend on state institutional and/or territorial structures as well as on broader economic, political, and socio-cultural factors’ (Jessop, J.–Sum, Ngai-Ling, 2000). In this definition, the central state appears as a possible partner of the city, or as an institutional (administrative) factor that is indispensable for the entrepreneurial strategies of a city to succeed.

Our research indicates, however, that the central state cannot be regarded as a mere institutional framework for city management, especially in the case of capital cities in highly centralised countries (such as France, but also Hungary). These cities have held on to their primary positions in the national urban hierarchy and are at the core of national development despite (or even because of) their growing independence as a result of their position in international economy. Central governments therefore do have a special interest in developing the city. These interests may be different or similar to those of the local government. In any case, the state can and will intervene in urban development as an ‘independent’ investor to enforce political interests and to realise projects of political or public importance. But, to do that, central government – just as the city government – is also constrained by the challenges of ‘competition’ and it has to involve in

collective projects based on widespread partnerships to achieve the success of its objectives.

The same can be stated for Budapest. During the 1990s, the central government gradually engaged in real entrepreneurship through some of the large investment projects in the capital. But what are the regional characteristics of this entrepreneurship? How are these felt in Budapest? Is the state 'successful' in implementing partnerships? What are the forms of co-operation between the state and other actors? The following chapter will seek answers to these questions through two case studies.

### **4.3 The evolution of state's participation in the urban development of Budapest through two case studies**

In the course of this research project, we focused on two large urban development projects in Budapest. The central state initiated and, in part, financed both. Both are rooted in 'old' projects that appeared again and again in urban development proposals of Budapest. As during past periods of the capital's history, both of them became the object of strong political debate during the 1990s. The case of the 'Infopark' project shows how state intervention strategies have been transformed from the beginning of the 1990s as a result of changing economic and political conditions, and the hidden contradictions in this process. The 'Millennium City Centre' project is more recent, it is still 'under construction', but shows some possible future paths for state intervention in large projects in the capital. Both undertakings can be regarded as investments reflecting the 'national interests' of the capital. Nevertheless, these projects create 'new urban spaces' that have – and will continue to have – an important effect of attraction on their neighbourhood and on the spatial development of the city as a whole. In that sense, they adapt several criteria of 'innovation' quoted above.

Figure 5

*The sites of Infopark (right) and Millennium City Centre (left)*



Source: Székely, L. 2001.

## **1. From World Expo to Technopolis – The Lágymányos-Infopark**

### ***International Exhibition and infrastructure investments***

The first Budapest Technopolis is situated in Southern Buda, in the ‘Lágymányos area’ on a site of 21 hectares. This area was one of the former ‘EXPO Project’ sites, abandoned in 1994 when the project was finally dropped. The sequence of events took place between 1987, when the government decided to go ahead with a World Expo in Budapest, and 1996, when the American AIG/Lincoln began to

erect the first office blocks on the site. It exemplifies the state's changing position as regards the urban development of Budapest.

The story begins in 1987, when the Hungarian and Austrian Prime Ministers signed an accord to organise a joint Vienna-Budapest International Exposition in 1995. The slogan of this Expo was 'Bridges to the Future', which reflected the main objective, namely to establish the two, located on either side of the iron curtain, as 'twin cities', thereby paving the way towards the European integration of Hungary. In 1989 a continuous greenfield and industrial area on both sides of the Danube in the southern part of the city was allocated for Expo Grounds. The site stretched from the Lágymányos area on the Buda side to an abandoned part of Ferencváros (9<sup>th</sup> district) on the Pest side. To the south, it was bounded by Csepel Island. After the political transition, the idea of the exposition sparked into a fierce political debate. The ruling right-wing government (1990–1994) supported the project as an important opportunity for the expression of national identity in an international context. The political opposition considered it an expensive and potentially embarrassing investment for a country that was in critical economic situation. The City of Budapest (also held by the opposition) withdrew its support for lack of financial guarantees for the project. Vienna rejected hosting the Expo in a referendum in 1991. Yet, against all odds, the Hungarian government decided to push forward with the project, albeit it with an altered schedule, from 1995 to 1996. As the lack of budget resources offered a sound reason for the opposition to vote against the project, the central government set a ceiling on state expenditure for the Expo and intended to obtain the remaining costs through private investment. The site situated in Ferencváros (the Pest side) was divided into plots that were to accommodate hotels and other commercial projects. (The infrastructure of these plots was to be financed by the exchequer.) However, by 1993 and 1994, out of the fifteen available plots, only three were sold (*Eörsi, J.* 2000). Finally, the left-wing government, elected in 1994, rejected the Expo project.

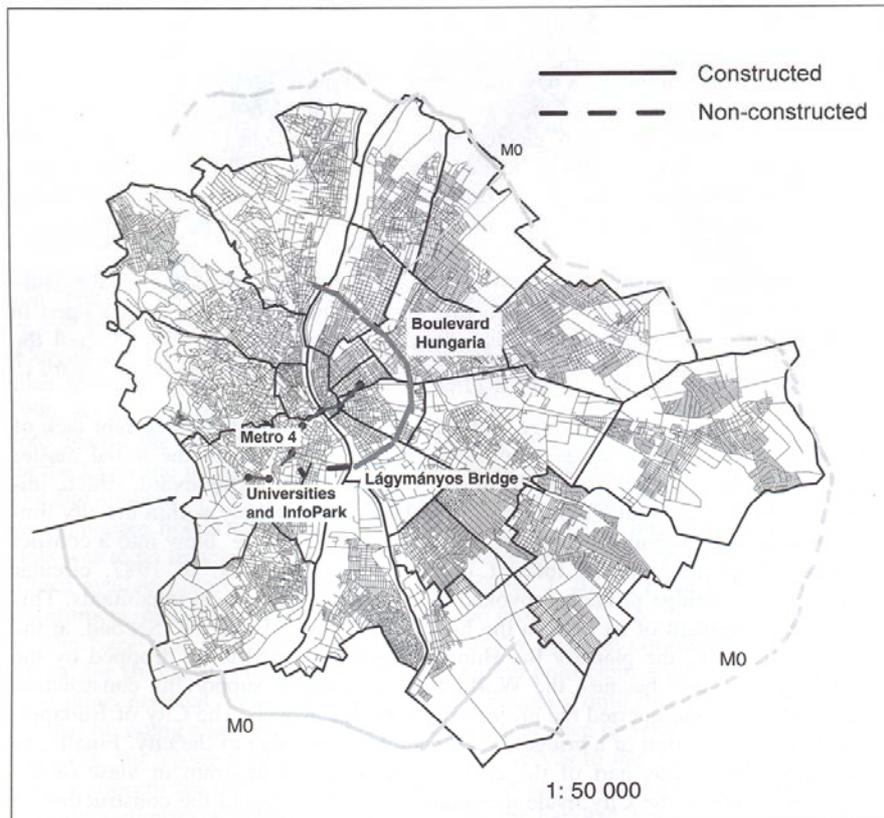
The Expo was bogged down from the start by political contradictions that are typical for Budapest. The government and leading politicians adopted the idea as a prestigious national project that could project Hungary onto the world stage. They insisted on going ahead with the project, even in the face of serious setbacks. Paradoxically, for a long time after committing themselves to the project, they did not offer a concept for the future exploitation of the projected investments. This was strongly reminiscent of the way the government handled investment during the socialist period (interestingly, the idea of the Expo was born during the socialist era), when central decisions on such development projects did not really need to be sustained by any economic or social rationale. Under increased pressure from the opposition, however, the government decided to adopt an idea that first emerged during the 1920s, that is to convert the Expo buildings of the Lágymányos site into

a new university campus, following the event. The detailed development plans were prepared in 1992 (*Vargha, M. 1998*).

In 1990, the project entitled ‘Additional Infrastructure Investments’ of the Expo was prepared by the central government. It contained plans for the construction of the remaining part of the Vienna-Budapest Motorway, the circular M0 motorway around Budapest, the reconstruction of the Hungaria Boulevard and the construction of the Lágymányos Bridge (Népszabadság, 24/10/1990) (see Figure 6). In 1992, the central government also agreed to vouch for a credit to be drawn by the City for the construction of a new metro line (the Fourth Metro). According to this agreement, the first section of the metro was to be completed by 1996 (in time for the Expo). In 1994, the newly elected left-wing government (1994–1998) and the City signed a new agreement to abandon the Expo project. By way of compensation, the central government guaranteed to continue the financing of the additional infrastructure projects and to finish the constructions of the Expo (thus, the buildings of the university campus) which had already begun.

Accordingly, the Lágymányos Bridge was inaugurated in 1995 and the Hungaria Boulevard in 2000. The metro line construction was scheduled to open in 1998, when a right-wing government came to power (1998–2002), rejected the project outright and disowned any pledge its predecessor had made with regard to the metro line.

Figure 6  
*The location of the investments related to the case studies*



Source: designed by the author, 2001.

The construction of the bridge and the boulevard testify to a recurrent lack of strategic thinking in urban development projects. According to the initial master plan, the bridge was intended to form part of the Hungaria Boulevard, which, initially planned as a circular motorway in the 1970s, runs largely within the city limits of Budapest. During the 1990s, the 'question of the bridge' blew into a conflict between practically all the interest groups concerned. First, in 1987,

circular motorway and bridge projects provoked massive protests by local inhabitants. This was first movement of its kind in the history of socialist Budapest. Second, at the end of the 1980s, the plan for the Hungaria motorway had to be dropped by the central government because the World Bank refused to support its construction within the city, and queried the project of the bridge as well. The City of Budapest voted the construction of a bridge on the southernmost edge of the city. Finally, as the Lágymányos was part of the central government's program in view of the World Exhibition, the City made a compromise, and accepted the construction of both bridges. Nevertheless, in subsequent agreements between the central government and the City, only the construction of the Lágymányos bridge was supposed to be financed by the central budget (Miklóssy, E. 1995). When construction began, the old plans were used, and the bridge was built to the specifications of a motorway. Since the Hungaria motorway project was abandoned, this plan was not appropriate for the area surrounding the bridge. This is especially visible on the Buda side, where the motorway-like bridge suddenly turns in a secondary street.

In terms of public transport, further paradoxes emerged. On the Pest side, the reconstruction of the Hungaria Boulevard was completed in 2000. Yet, rather than to the motorway plan, it responded to an alternative 'green boulevard' project. Here, Number 1 tramway line passes down the centre of the road. The bridge links onto the boulevard, whereas the last stop of the tramway is at the abutment on the Pest side. Although there would be room for the tramway path on the bridge as well, the extension of the line is envisaged neither by the City nor the state (Grof, I. 2001). Consequently, the rapidly expanding Infopark Complex on the Buda side of the bridge suffers from this inadequate solution, since it is practically impossible to get there directly from the city centre via public transport. With some basic co-ordination, the functional integration of this newly constructed area into the urban landscape of Budapest could have been resolved optimally.

## **The rise of Infopark**

Construction continued on the Lágymányos site even when the Expo project has been abandoned. In 1996, the Church of the Vatican was the first building to be inaugurated; three university buildings followed, one for the University of Eötvös Loránd, one for the Technical University, and a combined IT (Information Technology) building for the two universities. A sport centre was also constructed, which, sadly, is currently out of use. Many other buildings that were planned for the Expo were never realised (for instance, a theatre for the universities)

Apart from these buildings which occupy mainly the northern part of the site (at Petőfi Bridge), the creation of a large university campus with several additional buildings was abandoned. A 14-hectares site next to the university buildings has remained empty. In May 1996, the government decided to build an Information and Technology Innovation Park (InfoPark) in this area. This program followed the example set by other scientific parks such as Stanford Research Park, Silicon Valley, etc. A Phare programme launched in 1995, which aimed at sustaining innovation in small and medium sized enterprises, supported the scheme.

The InfoPark concept corresponds to the main criteria of innovative interventions listed by Jessop et al. (see above). The objectives were:

- to create an area that acts as an ‘incubator’ for enterprise and can profit from the presence of the universities;
- to stimulate innovation, research and development activities by encouraging a strong relationship between commercial enterprise and the universities;
- to train highly qualified experts as a result of the scientific co-operation between the high-tech companies and the universities;
- to help create an ‘information society’ by supporting long-distance education and teleworking;
- to acquire additional financing from the private sector, non-governmental organisations and foreign capital;
- to reinforce the regional position of Budapest in Central-Eastern Europe. (Barta, Gy. 1999b).

In order to implement the project the government established the InfoPark RT company with HUF 10 million equity. InfoPark Rt (Share Company) is owned by:

- - the Eötvös Loránd University and the Technical University – 25%
- - the National Committee for Technical development and Innovation – 25% (since 1999, this committee is integrated into the Ministry of Economics)
- - the Hungarian Investment Bank – 49%
- - the Ministry of Economics – 1 ‘golden’ share.

It was clear that in the long term, the whole InfoPark would have to remain state property, yet it was not possible to realise the investments by way of the central budget. Thus, it was decided to build InfoPark on an entrepreneurial basis. That means that the state-owned company only rents the land of InfoPark for 99 years to the investors. The one symbolic ‘golden’ share of the government in the InfoPark Rt ensures that only an Information and Technology Innovation Park could be established on the site.

The first investor, AIG/Lincoln signed the contract in 1998. The American company rented one plot at the southernmost part of the Lágymányos site to develop the first building called ‘Infopark Research Centre’. Before the construction was terminated, 75% of the 11,000 m<sup>2</sup> of offices were rented to

companies such as IBM, Hewlett Packard, ICL, Panasonic. The only condition fixed by contract between InfoPark Rt and AIG/Lincoln was that the office space had to be rented to high-tech enterprises that intended to develop a strong relationship with the universities (Vincent, A. 2001). In 1999, MATAV, the Hungarian telecom company, expressed an interest to establish itself at InfoPark. A German investor, IVG/Deutsche Telecom, would subsequently manage the construction of the MATAV building.

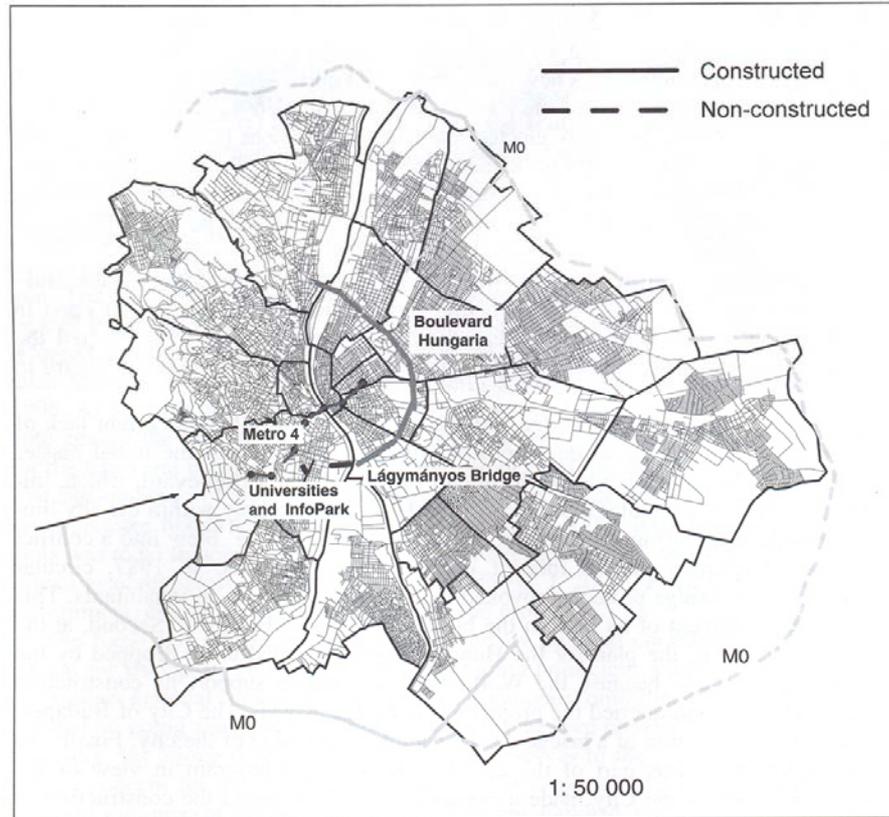
Soon, InfoPark Rt was seeking an investor to manage the construction of the entire park site. AIG/Lincoln proposed to manage the InfoPark development as a joint venture between separate companies created for the construction of each building. According to their strategy, the construction of one building would only begin when a sufficient number of tenants would have committed themselves. In the end, InfoPark Rt designated the German IVG/Deutsche Telecom as the general developer of the Scientific Park. The most important reason for this choice was that IVG/DT was a semi-public company; Deutsche Telecom was a partial owner of MATAV and IVG was only half-privatised in 1993. According to A. Vincent, development manager of AIG/Lincoln, the way of thinking of IVG/DT was closer to the principles and objectives of the public owned InfoPark Rt than that of the privately owned American company.

In 1999, IVG/DT and InfoPark Rt. signed a contract to create a private company 'Infopark Development Company' in order to manage the development of the InfoPark site. 99% of the company was owned by IVG while the Hungarian State kept one 'golden' share in order to keep its veto rights.

At the time of this study, four buildings have been completed and three are in planning. The 'Central Service Building' was inaugurated in June 2001 and it promises to improve the services (shopping, post office, etc.) of the Park. Services have been one of chief shortcomings of InfoPark until now: the park is located far from the city-centre, and – especially from its southern part, next to Lágymányosi híd – it is impossible to reach a well serviced area during lunch break...

Figure 6

*The location of the investments related to the case studies*



Source: designed by the author, 2001.

It seems now that the InfoPark project is on its way to become the most important technology centre in Budapest. Until now, this has been the only centre of its kind and scale in Central Europe. It is worth mentioning Budapest's other technology park, developed with private investment by the Hungarian software company Graphisoft in 1998. It is much smaller, and it is far away enough (on the Northern part of Budapest) not to compete directly with InfoPark. The question remains whether the continuous increase in the number of new offices in InfoPark is a sign of complete success of the 'Scientific park' project or not?

The first criterion for success would be an active role for the universities in the project. But have they really established collaborative relationships with the companies that came to reside in the area, as originally intended? Although the university grounds are not included in the site managed by the InfoPark Development Company (the main owner of which is the German investor) the representatives of the universities are members of the management board of the Company. This also guarantees that the developments remain in line with the original, scientific program of InfoPark and, as the director of InfoPark Rt said, 'that the park does not give place, for example, to the construction of new shopping malls', which remains the most frequent field of private real estate investment in Budapest (Grof, 2001). Certain initiatives have been taken by the companies in InfoPark to establish contact with the universities. MATAV and Westel (Cellular Telephone Company) created the Pro Progression Foundation for the Technical University in order to create an International Technological Centre. IBM also made an agreement with the Technical University for the creation of an 'e-business academy', where the software company offered to finance the software and hardware requirements of the project. In addition, IBM and Compaq have set up a scholarship scheme for students.

However, the main benefit of these initiatives for the companies is an easy access to highly trained experts from the universities rather than creating other types of co-operation with them, for example, in basic or applied research. There is still a high risk that InfoPark could become a centre for high-tech offices instead of a scientific and technology park, as was originally intended. This risk is evidently related to the fact that any development of InfoPark now depends on private interests (Barta, Gy. 1999b).

The other criterion for declaring InfoPark a success is its full integration into the urban fabric of the capital. As discussed above, the lack of co-ordination of infrastructural projects in the former Expo area resulted in InfoPark being almost entirely cut off from the other parts of the city. This is especially true for the Southern part of the site, situated next to the Lágymányos Bridge. As main tramway and bus connections with the city centre stop at the northern part of Infopark (at Petőfi Bridge), the only possibility to get to the Southern buildings is by car or on foot. The companies of the first building (Infopark Research Centre) therefore organised

a minibus service to link the building with more central parts of Buda. According to Grof, the chances of improving this situation in the near future are minimal. The City has just recently finished the reconstruction of the Hungaria Boulevard, equipped with a tramway, and is not planning to continue this line beyond the Lágymányos Bridge. InfoPark has practically no relations with the Budapest Municipality, which in turn has no plans for the integration of this area. This lack of co-operation may also reflect the permanent opposition between the government and the City.

Despite of these shortcomings, we have concluded that the InfoPark project is the first example in Budapest of a completely new type of state intervention where entrepreneurial methods have been followed.

## **2 Millennium City Centre – a complex entertainment “theme” park**

Our second case study, the so-called ‘Millennium City Centre’ is also rooted in the former project of the international exposition. It concerns an area in Ferencváros that has been defined as one part of the Expo on the Pest side, opposite Lágymányos. The construction of a large-scale cultural and entertainment centre began on this site in autumn 2000, following an agreement between TriGranit, one of the most important real estate development companies in Budapest, and the central government.

TriGranit is a joint venture between the Canadian enterprise, TrizechHahn Corporation, which holds 50% of the shares, and a consortium of investors formed by AIG Europe (that also finances AIG/Lincoln), EBRD and Polus Investment. This latter is owned by Sándor Demján, a Hungarian-Canadian businessman who has interests in several companies in Hungary. TriGranit appeared in Budapest with large-scale retail developments. They began with smaller-scale investments in the 10<sup>th</sup> district, and they went gradually towards more important realisations (Kézdy, 2001). In 1999, TriGranit inaugurated the largest shopping mall and entertainment complex in Budapest, the ‘West-End City Centre’.

Since 1998, TriGranit tendered twice to buy and develop the territory of the former Expo in Ferencváros. (Since the abandoning of the Expo, the 12 of the 15 plots defined in 1992 remained under state ownership.) The tender was rejected both times, first, because of the ‘lack of competition’ (TriGranit was the only applicant), and the second time because the government decided to build the new national theatre on one of the plots. In October 1999, the Canadian investor signed an agreement with the Hungarian prime minister. As a result, 11 of the 12 plots, altogether 45 000 msq, were sold to the latter at a relatively advantageous price of

HUF 2,4 Billion (the year before the site was offered for HUF 2,52 Billion). In counterpart, the company undertook the construction of the National Theatre for a limited price of HUF 6,7 Billion price. (HVG, April 2000.)

This agreement (hopefully) put an end to a long-lasting debate in Budapest about the fate of the new National Theatre. This debate has been a recurrent one during the history of Budapest, and the proposals repeatedly failed because of political or financial problems. One of the most debated issues was the location for the theatre. Following the political transition, the question arose again, and, during the mid 1990s, the left-wing government began the construction of the new National Theatre and entertainment complex in the city centre. In 1998, as occurred with several state projects at the time, the new government rejected the project, abandoned construction and began looking for a new location.

Spectacular political debates followed, particularly since the abandonment of the construction left a visible scar in the middle of the city (called often as 'the national hole' which itself symbolises the relationship between the central government and the City). Finally, the decision to build the theatre on the former Expo-site also avoided further debate, as these plots were owned entirely by the central state. Furthermore, this solution integrated rather well with the projects of Tri-Granit.

An agreement with the company-investor became a guarantee of the project. The site in Ferencváros is a large empty area. Though the former state owned company created for the realisation of the international Expo improved the site in 1992 by installing public utilities, the infrastructure remains to be developed: with the exception of one shopping centre and a petrol station, nothing has been constructed here. The area will require a large-scale development involving the complete restructuring of the surrounding lots, an investment that was not feasible by means of public capital.

The construction, of the National Theatre financed by TriGranit, began in the autumn of 2000, on the 12<sup>th</sup> plot of the site, which incidentally remained under state ownership. A state-owned company manages both the construction and the operation of the theatre.

The development of the 11 plots bought by the investor is still in the project phase. TriGranit envisaged a development that would consist of (apart from the theatre):

- a convention centre, with hotel, casino, thermal spa, multiplex cinemas and music theatre
- a Museum of Modern Art
- a 16,000 msq exhibition hall
- 4 to 6 hotels
- 61,000 msq office space
- high rise residential buildings for condominiums

- retail units

If this project is realised, it would give rise to multifunctional cultural and tourist centre in Budapest that would strongly improve the position of the surrounding 9<sup>th</sup> district and its brown-field area. But also, it may become a strong pole of attraction for the whole city. The project includes several investments that are still lacking in the capital, especially the conference centre and the exhibition halls. The development may therefore improve the future position of Budapest in the wider regional and European context.

Although the Millennium project has generated strong political debates, it can be considered as a highly innovative investment in the long run. The concept reflects some methods of urban development policies that are used in West European cities. As can be seen in the case of recent development-projects in South London (Tate Modern) or in Paris (National Library or the Stade de France), the Millennium project in Budapest unites the development of cultural and tourism functions with the need to revitalise run-down brown-field neighbourhoods. The project is based on the concept of private-public partnership, implying co-operation between the government and the private investor.

The Millennium Centre Project is, however, not without the contradictions resulting from the lack of co-operation between authorities. The main problem of the Ferencváros site is that the whole area is cut in half by the tracks of the suburban railway towards the Southern part of Pest (HÉV). The presence of this line is the main cause of the very low demand for these plots since the Expo project. As part of the exhibition infrastructure investment program, this stretch of track was to be brought underground, but this plan was abandoned along with the Expo. In fact, both TriGranit and the government refuse to offer a solution to this problem. The City – the owner of the Transport Company – remains passive concerning the whole development, since the tracks are not under municipal ownership. In the spectacular model of the project exhibited at the headquarters of TriGranit Rt, the train line is simply, not represented. The question of the train line has clearly been sidelined, quite possibly because of the forthcoming elections. Yet, the issue is likely to raise further political whirlwinds.

Figure 8

*The construction of the National Theatre at Millennium City Centre,  
with the metropolitan railway line*



Source: [www.piksys.hu/nemzeti/nemzeti.htm](http://www.piksys.hu/nemzeti/nemzeti.htm)

### ***Conclusion: new strategies and methods of the central government***

What conclusions can be drawn from these two case studies?

Both projects respond to almost all the conditions of innovative ‘entrepreneurial urban policy’:

- They create new urban spaces following the requirements of urban competitiveness: a scientific-technology park and a cultural and entertainment park;
- They are multi-functional, and incorporate several types of urban activity (research, production at InfoPark, tourism, culture, entertainment, residential and retail functions at the Millennium project);
- Both open new markets for the city: high-tech research-development at InfoPark, and entertainment complex at the Millennium City Centre;

- Both have a role in neighbourhood urban regeneration (especially the Millennium City Centre may play an important role in the development of the brown-field area of the southern part of Pest), and together they play a role in the 'extension' of the city centre to the southern parts of the capital.
- Both improve the position of Budapest in the international hierarchy of cities by creating modern and international urban centres in the region.

They are realised as partnerships between the central government and international real estate companies. This co-operation may offer a mutual guarantee for the competitiveness and long-term success of the projects.

However this optimistic picture hides several weaknesses that could endanger the success of these investments.

According to the agreements with the investors, the role of the state is limited to the ownership of the land. The central government sells or rents the land to the investors, and agrees to the strategic concept of the investment, but the investor will subsequently acquire a dominant position in the project. The advantage of this is that it guarantees a long life-cycle for the project, which will not be subordinated to the changes in the composition of the central government. The disadvantage is the risk of losing sight of the initial aims of the projects (i.e., InfoPark may become a high-rise office complex rather than a real scientific park).<sup>3</sup>

State initiative was rooted in political reasons or previous alliances. In the case of InfoPark, the construction of the universities, which was already under way and the agreement with the City regarding additional investments 'attracted' the establishment of a scientific park. In the case of the Millennium City Centre, the state's initiative was based on the political need to create a prestigious investment (the National Theatre) on a plot that is entirely owned by the state in order to avoid further political confrontation concerning this question. All other investment objectives (i.e., the creation of a high-tech scientific park, of a new centre in the city, etc.) were worked out in the wake of these initial decisions.

These two weaknesses were partially based on subjective observations and may require further refinement or further case studies including international comparisons. Nevertheless, the third and most important weakness of the two development projects is evident from this study: the appalling lack of co-operation between the state and the local authorities. In these projects, the central government (whatever political majority is in power) proceeded as an individual investor and often without harmonising its program with the local authorities. This is especially visible in the lack of strategic co-ordination with the public transportation system of the city. (At Infopark, the lack of facilities on the southern part of the site, at

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<sup>3</sup> Although, by the end of 2001, at 'Millennium City Centre' the central government plans to take in charge the construction of the Conference Centre as well, besides the building of the National Theatre. (Népszabadság, 31 December 2001.)

Millennium City Centre, the unresolved problem of the train line that cuts through the site...). This 'outsider' position of the central state reflects its withdrawal from the urban management and strategic planning of Budapest.

## **5 General Conclusions**

This study analysed urban policies in Budapest during the 1990s from the point of view of the central government's role in urban development. It set out three objectives:

- 1) to outline the general processes of state withdrawal from the urban management of Budapest after the political transition;
- 2) to analyse new forms and methods of state presence in urban development through two case studies; and
- 3) to place the whole process in a broader, international context.

After the political transition, the withdrawal of the central state from Budapest affected almost every field of urban management from local administration to fiscal policies, management of local infrastructures, housing policies, urban planning, etc. In all these fields, local governments obtained almost exclusive control of these functions due to the decentralisation process resulting from the political transition. Decentralisation especially reinforced the position of the City of Budapest, which became a powerful political and economic player in national politics. This unique position is underlined by the marked economic development of the capital compared to other parts of the country and to the integration of Budapest in the international hierarchy of cities. Nevertheless, this unique position of the City hides some weaknesses. The fragmented administrative system of the capital and the autonomous position of the districts as well as the lack of institutional relationship with the outlying communities hinder the co-ordination of the metropolitan area's development. Despite decentralisation, central government kept some of its controlling functions through fiscal policies, state subsidies and the implementation of national regional policies. The strong position of the capital has resulted in increased political tensions between the City and the central government.

During the 1990s, central government has withdrawn from practically all fields of urban development (housing, infrastructure, etc.), by transferring these to local governments. However, it remained one of the chief investors in Budapest by promoting prestigious urban projects. Thus the role of the state in the improvement of the capital's position in an international context remained significant. In these prestigious projects, the central government gradually ventured into applying some new methods and forms of intervention. Investments followed the methods of

public-private partnerships, where the state no longer plays the dominant role as it did under socialism. The analysis of two case studies showed that as a result of decentralisation, the state occupies a completely 'outsider' position in Budapest, and does not fill a role of a co-ordinating authority. The lack of co-operation between the state, the district councils and the City may compromise the success of state-initiated urban development projects.

The changing role of the state in the management and urban development of the capital city is only partially the result of political transition. Similar tendencies can be observed in most large cities. The weakening of states' and the reinforcement of urban areas' economic and political positions is a general phenomenon related to processes of globalisation. The case of Budapest fits into a wider international pattern, but it at once highlights the particularities of post-socialist transition. While the retreat of the state in Western countries was 'based' on pre-existing structures, in Budapest these global processes were coupled with the creation of a new political system. This is the reason for the ambiguous relations and often exaggerated political tensions between the central government and the City.

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