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Development of the Regional Management of the Economy in East-Central Europe by

HORVÁTH, Gyula

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I. INTRODUCTION

The factors hindering extensive economic development were of necessity generated in most European socialist countries by the initial advantages of an intensive industrialization. The well-known challenges of the 1970s which marked a watershed in the economy, were met in the socialist countries by an accelerated intensification of the economy. The structural transformation of the economy played an important role in these changes course almost everywhere. It has gradually become self-evident, that the pattern and rate of future economic growth will be determined by the inner structural changes. Moreover, the spatial structure will become a major determining factor in the dynamics of the economy. Thus, the connection between economic growth and regional structure has been put into a new light, due to a slow-down in the economic processes. When the foundations of socialism were laid the territorial location of the productive forces was a task, economic in nature. aimed at setting up the new economic structures, but nowadays, regional development is increasingly becoming a means of influencing economic growth.

Besides the objective circumstances influencing economic development, changing attitudes to tasks of regional advancement were also fostered by research findings related to the spatial character of the socio-economic processes which made it more and more self-evident that there was a need for more conscious application of the spatial categories than before.

A close look at the latest resolutions adopted by the Congresses of communist and labour parties in the European socialist countries, or at the latest five-year-plans will - 4 -

lead us to conclude that the spatial distribution of economic activities has been attributed a means function in social reproduction everywhere. <u>Regional development is</u> <u>obviously looked upon as a factor that enhances afficiency.</u> Moreover, <u>regional management structures were to be</u> <u>perfected</u> depending on the changes in central management and with a view. The changes envisaged were naturally differentiated to improve regional economic management.

The new requirements of regional policies are best expressed in a document called "The Main Tendencies in the Socio-Economic Development of the Soviet Union" adopted at the 26th Congress of the Soviet Communist Party which says: "There is a need for an improved territorial allocation of the productive forces. This would enable us to enhance social productivity... by means of the further spe-. cialization and proportionate development of the individual economic regions. Let us develop the co-operation between the different sectors of the same region, and put an end to the unnecessary parallel allocation of productive and non-productive infrastructure. Steps should be taken to break down the barriers set by the divided structure of central authority and efforts must be made to establish a better connection between regional and sectoral management... There should be a better co-ordination between the managerial activities of the central, sectoral and local authorities in order to make them more efficient in solving some of the key-issues of economic development."1) 1.

There has been a whole range of statements, similar in content, even if put somewhat differently, published in the other socialist countries. Key-issues are all linked to the improvement of the spatial structure, regional planning and regional management of economy. The Hungarian - 5 -

Socialist Labour Party in his resolution outlined the task as follows: "Regional development should likewise be made more efficient."²)

Further reference to the need of enhancing regional economic autonomy can be found in the documents adapted at the 12th Congress of the Bulgarian Communist Party. 1 t pointed out that "... research should probe more deeply into possible ways of achieving a steadier balance between centralization and decentralization. This would guarantee a further development of democracy."³⁾ While outlining the main course of development for the various branches of the economy, the document stresses that "The programmes worked out for the individual branches...should be co-ordinated with regional programmes, on the basis of a unified productive, technical and social infrastructure for all the sectors and activities within a region. This, requires the removal of obstacles set by the hierarchic and regional conditions if we are to achieve maximal achievement in the national economy,"⁴⁾Finally, there is a clearly delineated programme in the document of the intended development, for the proper division of labour between the organs of central and local administration: "(This novel view of the economy - GY.H.) ...makes it imperative for us to clearly separate the responsibilities of the central state authority from those of the community or local authorities. Governmental authority should only be called upon to decide the basic issues of the accumulation of socially-needed consumption funds. Everything else should be the concern of the community leaders. Therefore, the means should stay with the communities, which should be granted the authority and the possibilities to plan such economic, cultural and other activities that would increase their own social consumption funds. The time has come for factories and other enterprises

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to relinquish certain funds of their own, in favour of the communities, which would subsequently satisfy certain material and intellectual needs of the population. The more so, since the firms are parts of a well-defined territorial entity, where their personnel live with interests and needs of their own."⁵

A whole range of other party decisions could be cited, but these would only further support the idea that it is not only the inner structure of the economy and the links between a given economy and a given society that have come under new scrutiny in the socialist countries. Also there is a greater emphasis upon the balance between centralization and decentralization in the economy, and the measures to be taken, i.e. the changes in institutional structure.

The conscious integration of the regularities of regional division of labour into the economic mechanisms and institutional system is a process stimulated not only by the changes in the structure and operation of the economy, but also by the processes of democratization on the social and economic levels, and the steady development of the political systems.

Consequently, the modernization of socialist economic management requires that attention should be given <u>not</u> <u>only to the sectoral patterns, but also to the spatial</u> <u>arrangement and its peculiarities.</u> This essentially Marxist view of the problem should not only be applied in the transition period to a more intensive development. From the very beginnings of socialist-type planned economies, the integration of the unity between the sectoral and spatial relationships into the economy has always been a major concern, if not scientifically, but politically at any rate. Needless to say, striving towards unity could - 7 -

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be no more than wishful thinking in most places at a time when the key-issue was the choice between a centralized or a federal structure of state, i.e. whether it would be best to extend structures "upwards" or "downwards". A direct sequel to this state of affairs was that the interactions between the sectoral and the regional points of view, and their interactive nature as only came to be considered at the level of national economic planning. This seemed natural at the time, not only on account of the centralized economic management; the reconstruction and the subsequent transformation of the economies on a socialist basis, i.e. the process generally called the territorial allocation of the productive forces, could only be achieved by means of centralized programmes. Moreover, the local and regional bodies were but small and not too independent subsystems of a unified central state-power system.

II, THE CHANGING FUNCTIONS OF REGIONAL MANAGEMENT IN THE DEVELOPMENT OF THE SOCIALISM

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A long period in the development of socialism was characterized by the dominance of sectoral management. There was a wide range of objective and subjective factors in the early history of the USSR, then, decades later, in the establishment of the people's democracies, that led to the kind of development which - with the exception of Yugoslavia - universally favoured centralization as opposed to federalist, self-governing and decentralization to become the guiding principle. This can be accapted as natural under the given, objective circumstances, since - as it thas been mentioned earlier - it would have been-much more difficult under any other scheme to eliminate economic backwardness, transform the spatial structure of the economy and strengthen the position of the working-classes as policy-makers.

There is no denying that even in those early stages the central and local bodies of state authority were declared to be acting in unity. The principle of democratic centralism was meant to solve the contradiction between a unitary socialist state structure and local autonomy. However, in keeping with the policy lines laid down at. the time, even scientists contended themselves with а formal approach to the concept of democratic centralism. which said, that the decision-making power lay with the central bodies, while the execution of these decisions was to be left to local authorities. Local bodies would then make sure that the general directives of the central bodies were carried out with the local peculiarities in mond. Although this interpretation did contain the essence of Lenin's view, it came to light more than once that the two poles of the concept were by no means equally represented, either in the range of possible action, or in the various forms of the structural framework. Let us remember that Lenin's standpoint was clear on this issue: "... democratic centralism demands freedom in its largest sense for all the regions and communities within the state, in shaping state, social or economic policies".⁶⁾

Research into the development of the socialist systems of economic management before the transition to an in tensive development reveals, that in two, relatively short periods, sectoral principles were either viewed as being of secondary importance, or, on the contrary, came to be ranked almost equally with the territorial considerations (early 1920s).

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The conclusions that can be drawn from the first stage could interest us on account of their clear, logical theoretical makeup. The experiences of the second stage, the experiments in the USSR, Bulgaria and the GDR in the late 50's and early 60's are worth summaring up not only because some of their specific answers to the questions posed would be suitable starting points for many development concepts today, but also because it is beneficial for us to keep its lessons permanently in mind if we are to achieve a further development in the global management system.

Lenin's early work, written before the revolution, shows that his ideas on the organization of the state and the economy rest on two main pillars: economic and administrative regionalization, as determined by the territory-bound regularities in the economy, thus achieving the unity of economic and administrative regional division, and, on the other hand, the principle of democratic centralism which determines the functioning of the superstructure both in the state and in the economy. To put it differently, the idea is based on the dialectic relationship between a centralized state power and local autonomy.

There were simultaneous changes within these two spheres, both being two main aspects of regional management. Though they varied in intensity, subject to the immediate tasks of building up Soviet power, their effects mutually supported each other "and contributed to the formation of the economic and state power structure of socialism. Yet, due to the nature of the Russian background which had brought about the revolution, the initial years of the Soviet state were characterized by various, not infrequently contradictory principles and

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methods. Conflicts mainly arose from the fact that both autonomy and federalism were judged from different points of view by different people. Lenin strove to achieve a state structure based on a harmony between administrative and economic regionalization, while observing the principle of democratic centralism. There was another trend also, which, under cover of federalism, would split the country into decentralized territorial entities according to narrow interests. These ideas were characteristic of anarchist and syndicalist thinking. The third important trend aimed to establish territorial confederations. Lenin's course was to fully ensure the functioning of the central state power, while staunchly supporting the principle of hierarchic organization of the territory.

"The harmony between the different types of management was temporarily destroyed by the total war-economy and the vertical hierarchy of management. There was no adequate institutional network to co-ordinate territorial division of labour, so the negative effects of these measures showed almost immediately. This explains why a whole range of measures came to be adopted as early as the 9th Congress of the Russian Communist (Bolshevik) Party, before NEP was introduced, all aimed at restoring the original model as devised by Lenin. This put in a somewhat simplified manner, was based on the idea that it was inconceivable to ensure the proper workings of trade and the monetary system without a structural frame that would institutionally guarantee the link between the central power of the state, local activities and selfaccounting.

Lenin's later works,written when the New Economic Policy came to be implemented clearly indicate that Lenin envisaged a structural and functional equilibrium between

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the sectoral and regional management systems in the long run. A direct sequel to this was the formation of the system of economic conferences (ekonomicheskoye soveschaniye) that were relatively soon able to co-ordinate central and local, vertical and horizontal economic processes and to meet both sectoral and regional interests. It is important to stress the fact that these typically deconcentrated elements of the planned economy came to existence without the abolishment or even radical transformation of the economic institutional network that had been functioning in a satisfactory manner. No allowances were made in the planned course followed by centralized economic management. According to Lenin's phrasing of the problem, "the increase in industrial activity and independent accountancy would leave the central authorities in charge of planning the production schedule, of supplying and financing, regulating and controlling the economy. Management in all its functions would be handed over to the local authorities."⁷⁾

Without going into details of the set-up, tasks and functioning of these conferences — a problem worthy of attention in the theory and practice of today's socialist economic management —, it is worth remembering that these co-ordinating bodies could only perform formal activities in regulating the economy, given the lack of financial resources and material bases of their own.

Another theoretical element of Lenin's concept of the spatial mechanism of the economic management came to be embodied in the measures taken to ensure the basic unity between administrative and economic regionalization.

Even before the October Revolution Lenin had held firm views on how to apply Marx's regional division of labour theory to Russian conditions. It is at that time - 12 -

that his theory about the regionally organized economy began to take shape. In broad lines, Lenin was the first thinker to emphasize the fact that the organization of the economy on a regional basis is a spatial expression of the historical process of economic development. He was the first to stress the objective nature of regional division of labour and of economic regions, and to draw attention upon the direct links between this division and the overall division of labour within the society. He proved that the regions of different sizes and types are the results of the development, location and interrelationships between the economic phenomena generated by a historically-defined mode of production. He brought clear and complex proof of that fact that under capitalism the economic regions are the result o f the controversial unity of the forces and the relations of production. He used whole range of facts, to support his idea that capitalist development brings about unequal regional development. On the other hand, few global sectoral systems arise within the economic regions which become mutually interdependent. To define the individual economic regions Lenin took such criteria as differences in economic growth, the state of the material and technical stock, the level of the economic links, the administrative territorial division and the ethnic composition of the population.⁸⁾

After 1917, the Leninist principles of economic regionalization served as a theoretical basis for action. The criteria just mentioned were applied both in the GOELRO Plan, which was the first important document of the socialist planned economy, and in the actual process of the democratic transformation of public administration. It should be noted that economic regionalization was not 13.00

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simply a methodological task of dividing the territory, but it directly served the economy.

This is further supported by I.G. Aleksandrov's, assessment of the importance of the activity referred to above. Prof. Aleksandrov, who was chairman of the Regionalization Subcommittee of the State Planning Commission, said: "The state has to be divided into territories with considerable economic autonomy. No economy will flourish unless it engages all the state resources into one commitment. This, however, is inconceivable in any highly centralized structure. There is real need for teeming life in the various regions, to make sure the local populace have enough influence and power. It is only in this way that local economic activities can go on undisturbed, without encumbering the central state bodies with tasks of local, rather than national importance."⁹⁾ Aleksandrov's view was inspired by the new economic policy that expected to eliminate the weaknesses inherent to vertical sectoral management, among others by strengthening regional economic management. The economic regions were supposed to serve as geographic background to the creative energies of the population. This system would have served as a basis for a threelevel administration. After Lenin's death, however, the fairly coherent regional management theory of the early 20's was gradually ousted and pushed towards the peripheries of state economic activity. That was the beginning of a nearly three-decade-period, when Lenin's model was not only brushed aside in its basic tenets, but the very theoretical heritage was at times negated in favour of strong centralization and the hegemony of a hierarchical sectoral management. This fact partly explains why the well-known institutional systems of economic power evol-

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ved in the people's democracies of East-Central Europe. It also make it clear why the first territorial schemes were much too simplistic to our modern mind and why regionalization could not be integrated within the overall economic policies.

This initially simplistic view of the Leninist model subjectively provided no negligible economic, ideological and political factors of power.

Thus, before starting the development of the socialist regional economic management on a new course, it is necessary to give ample thought to the pre-history of the socialist economy, i.e. the period when Lenin's theory could become the starting point of regional economic management in its entirety.

In another period of the socialist economic management, a strongly centralized sectoral economy was superseded by a powerful space-oriented pattern. Changing attitudes towards regional economic management emerged as part of an overall economic reform movement in the USSR, Bulgaria and the GDR.

By the late fifties the sectoral management systems had proved to have initiated a whole range of negative phenomena in the economic development not only in the countries under consideration, but in all socialist states that had known economic recession. Part of these phenomena stemmed from over-centralized decision-making. By this time the structure of central management had become so differentiated, that the intricacies of sectoral management made the development of sectoral co-ordination and inter-plant co-operation virtually impossible. Rather, the structure became the hotbed of sectoral chauvinism and of autarchic tendencies.¹⁰⁾ One further bone of contention was that the local and territorial manage- 15 -

ment organs - which, besides local councils, included the local party organizations as well - could not coordinate their work with the central bödies. This inability was mainly due to sprawling co-ordination tasks that could hardly be coped with. To tell the whole truth, however, one has to remember that the economic policies of the period made no use of horizontal co-operation, which was not looked upon as being essential for economic management.

The most complex phenomena of the discrepancies between a hierarchic sectoral management, seen as relations of production, and the stage reached in the development of the forces of production, their negative influence upon regional development could be detected in the Soviet Union. In this country, the sound basis of the socialist economy had been laid by the mid-fifties, extensive industrialization had significantly changed the regional location of the forces of production; i t was here that one had to realize that if increasing amounts of the national income are spent on improving the living-standards and the development of infrastructure then an increase in the productive capacity can only be achieved through a fuller use of the existing assets. The more so, since new capacities are slower in developing under the circumstances.

These facts also prove that the functioning of the basic units of the economy cannot be directly and rationally influenced by an intricate sectoral management.

An important step towards reforming the economy was taken in the plenary session of the Central Committee of the Communist Party of the Soviet Union in July 1955. The basic flaw in the economy was found to be the cumbersome and inefficient, parallely-laden sectoral mana-

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gement of the industry. The range of ensuing measures can be sized up if one remembers that several ministries were abolished within a year, while the staff of the enterprises under regional control increased from 33 per cent in 1950 to 47 per cent.¹¹

A thorough reform was announced in the plenary session of the CC of the CP of the Soviet Union in February 1957. From among possible alternatives the regional arrangement was decided upon. In principle, the session indicated as starting point for the process to bring the management closer to production. Moreover, the legal power of the individual republics was to be increased, local councils, party-organs and trade unions were to be assigned a more significant role. The citizens were to have a greater part in matters of economic management 12)

A direct sequel to the practical applicability of these ideas was to find new paths in territorial management. The territorial reform assigned a key-role to the economic-administrative regions. They were constituted with a view to establishing the unity between administrative units and the corresponding economic regions. The specialists of this period considered this to be a guarantee of good functioning. They brough up various arguments to support the adventages of this system over the former arrangement. They were convinced that the new administrative regions were economic 'entities as well. Though they were considerably smaller in size than the former economic regions, their specialized nature would be all the more obvious. A higher degree of specialization would lead to conditions fostering simpler ways of management. Thus autarchic tendencies and regional chauvinism would be easier to check. Another ar-

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gument in favour of economic and administrative regions was a possible higher level of co-ordination of economic processes and the activity basis of regional state and party organs. The unity between the political power and the economic sphere would considerably enlarge the scope of regional planning and the authority of regional economic management. While there was greater scope for influencing those processes, new ways were opened up for local initiatives.

But there was a much more thorough modification behind the formal changes in the regional background to the economic management system. ¹³⁾ The structural guarantees for the wide-range state management reform brought in were the national economic councils set up within the new economic and administrative regions. These bodies were under the control of republican government. A law determining their powers passed in 1957, stressed their individual republican subordination. The Soviet Government could only direct them via the republican governments. So in this case there was no traditional double subordination.¹⁴⁾ Their links to the territorial councils were characterized as follows: on the one hand, they had to report on the activity of the enterprises under their control to the executive board of the local councils: on the other, they had to establish links of close co-operation with the councils in matters of widerscope development projects in the economy.

The national economic councils were legally considered to be bodies of territorial management and professional guidance. We are not going into their organizational and decision-making powers here. However, some features of their controlling function, due to the spe- 18 -

cialist guidance feature are decidedly worth analyzing in some detail. The inner structure of these councils reveals some principles that were decisively sector. determined. It was through these directorates that the people's economic council directly controlled the enterprises. Their powers extended over the whole activity of the enterprises. They were responsible for materialsupply, co-operation, and for the minutest details of industrial planning. They approved of rules of conduct and nominated plant directors. It is no wonder then that the critics of the system saw its major flaw in the fact that the double management channel, i.e. "enterprise council" actually comprised three stages.

Another channel of the division of labour in economic management was represented by the council system. While industrial and building organizations were subordinated to the people's economic councils, agriculture and non-productive branches remained under local control. Initially the directive powers of the councils increased. In the early sixties, however, local industrial enterprises slipped out of their control and were taken over by economic organizations. Thus, the bodies of state power, so far unitary, were split into councils of industrial and agricultural concern respectively. Political institutions were also reorganized on the basis of productive functions. In agricultural districts the local party committees were replaced by production directorates in the agricultural cooperatives. These directorates had both administrative and party functions.

The number of economic councils was reduced to 47 in 1962. The three levels of the planning system (i.e. the economic region, the economic and administrative region, and the district) were replaced by four levels. - 19 -

The upper levels were represented by a large economic region, this being followed by the regions of people's economic councils, enlarged by now. One step lover there were the 137 autonomous republics, border counties and counties. At the lowest level there were the 2,724 districts.

Thus, during this stage of Soviet economic management, the regional elements clearly outweighed sectoral management, depriving, in this way, the upper levels decision making of the possibility of an unitary concept and of unitary executive measures. Obviously, there could be no question of achieving an optimal sectoral development in this way, since sectoral development was supposed to be nation-wide. Thus, investment flow among the various territories slowed down considerably. Territorial interests came to the foreground in industrial development, all the more so, since two thirds of industrial investment were initiated an financed by the people's economic councils. There was no nation-wide plan for industrial development or even for sectoral development. The councils strove to achieve a many-sided development of the industries on their respective territories, an effort, however, that hindered specialization. Economic ties between the regions also loosened. Although excessive centralization in management could be abolished, within one economic region, however, dependence of this or that authority brought about isolation of "enterprises. In spite of formal broadening of the authority of local bodies, no significantly better results in production could be expected, since only the organizational pattern was modified, while, the administrative methods of regulating production within the enterprises remained predominant.

Management problemes connected with organizational

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structure not only did not become fewer, but even multiplied. Specialists dealing with the spatial character of the economy convincingly and repeatedly proved that the territorial entities - contrary to the intentions of the reformers - were not economic regions. The first variant of the system of "economic-administrative regions was unfavourable for long-range planning, while the second proved a failure in co-ordinating the intricate management problems of the individual regions. Less stability in territorial organization was one of the factors leading to a sharp differentiation in the economic capacity and production level of the various territorial units. The gap between the different regions widened. The process was further intensified by the fact that the regional-centred economic management had no influence on regional planning. Regional plans began to lose their degree of complexity. The planning done by the economic councils could not be identified with regional planning, however temping the analogy might have appeared. The planning activity of the local councils did not go beyond the comparatively narrow level of local economy. Wider regional plans were only worked out аt the level of the republics of the union.

Efficiency was cut down by such unforeseen negative effects, as ran counter to the basic tenets of economic management. All this, in spite of the good results coming from the abolition of sectoral isolation. This phenomenon undoubtedly played a part in the slowdown of economic growth at the time of seven-year plan.¹⁶)

Some of the basic elements of the Soviet economic reform were made use of in the <u>GDR and Bulgaria</u>. The transformation of the economic institutions of each - 21 -

country shows a few particular features in addition to common trends.

Important party and governmental decisions were taken towards reorganizing state management in the GDR in 1957 and in Bulgaria in 1959. The first steps were aimed at simplifying the processes of multi-level economic management, to bring production and management closer to each other. There was a significant cut in the number of ministries. Eight ministries were abolished in the GDR and 11 in Bulgaria. Local and territorial administration gained more legally guaranteed power in economic management. Instead of the former sector-centred directing bodies the supreme management boards became single bodies: the Industrial Committee in Bulgaria and the State Planning Committee in the GDR.

Besides these similarities there were fundamental differences. In the GDR the territorial-administrative organization was left unchanged¹⁷⁾, while there was a thorough-going reform in Bulgaria. The former threelevel administration was changed over to a two-level system. However, the economic potential of the first twolevel units was not too great, so regional bodies could not manage the economy too efficiently.¹⁸⁾ Another difference concerned the legal standing of the regional bodies of economic management. Although there was no regional economic authority independent of the local administration, in the GDR economic councils were set up to aid the executive committees of the county councils. These were subordinated to the State Planning Committee. In Bulgaria, regional management was performed by the county authorities and their sectoral management boards. The Bulgarian model included special features as to the power of the councils to in-

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fluencing enterprises which still remained centrally controlled. (It is worth mentioning here that the number of enterprises under regional control was highest in this country. About 90 per cent of industrial enterprises, especially in the building industry, were controlled by the local councils.)

A charasteristic of the GDR was the fact that the enterprises controlled both by the economic councils and the planning authority were organized into nationwide unions set up on sectoral principles. There were several types of union founded according to the needs of industrial management and the structural pattern of individual areas.

60 per cent of industrial production was controlled by 75 unions, directed centrally.²⁰⁾ The management of county-level enterprises was likewise undertaken by middlelevel directing bodies. Most of these, however, worked on a regional rather than on a sectoral basis.

The reform attempts in these three countries in the fifties and sixties were aimed at a rational modification of the management hierarchy. There was an effort to integrate the regional division of labour into the economic usystem. There were quite a few sound economic elements in the models set up in the different countries. These experiments also proved that any proposition that would simply transfer the mostly operational powers of sectoral management to the regional units without differentiation was detrimental to economic growth. Most of these methods lacked adequate scientific foundation, given by the state of social sciences in that period. The desired harmony could not be the result of tendencies which were not conscientiously influenced. These experiments were also meant to put to the test several theories of territorial arrangement. The theoretical background and the methodology of economic de

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velopment were both enriched through these attempts.

By the end of the sixties, the division of labour mainly came to be structural along vertical lines, i.e. between vertical levels, yet their effects were to be felt in the horizontal-regional management as well. The transition to a decentralized indirect planned economy had its consequences in one of the most important institutional network of regional management - in the council apparatus. The measure of changes and their depth was highly dependent upon the overall state of power equilibrium.

In all the countries under consideration, either council legislation was modified, or the functioning of the local and regional bodies was set upon a new foundation. The problem of local authorities was mainly linked to the extension of socialist democracy. Legislation was primarily concerned with lower level administration, i.e. of the towns and villages.²¹⁾ A source of lasting contradiction, however, is that key positions in regional planning mainly remained with the regional administrative units.

By the time all the adventages and disadventages could be weighed up against each other the territorial arrangement of production forces had changed considerably. Thus resulted the situation referred to at the beginning of this study. Economic interest gradually shifted from regional development to the spatial functioning of the economy. This shift was brought about by a levelling of the great differences in the standards of the different regions and by the bottleneck in resources necessary for the territorial relocation of the productive forces. This phenomenon brought with it the need to redefine the functions of the institutions Horváth, Gyula: Development of the Regional Management of the Economy in East-Central Europe. Pécs: Centre for Regional Studies, 1987. 51 p. Discussion Papers, No. 5.

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responsible for regional economic development.

III. SPATIAL FRAMEWORKS OF THE SOCIETY AND THE ECONOMY

As indicated earlier in this paper, the organizational framework and the ways and means of a planned management of the economy are anchored in two large spheres of the social division of labour while observing the rules which govern the sectoral and regional division of labour. While the formation and functioning of the sectoral structure - if a little simplified basically depend on the diversification of production and the relative freedom of productive units, - thus reducing the task of defining the units of the economic processes to a statistical operation - the area of the spatial processes can be linked to both the economic regions and the territorial administrative units. The criteria of delimitation, the functioning and aims of the two systems are distinct.

The <u>system of economic regions</u> was worked out in the years immediately following the formation of socialist states. More precisely starting from the Marxist-Leninist theory, and making use of Soviet methodology, geographic units were delimited in service of implementing the socialist mode of production as soon as possible. It is true, that in some of these countries the objective functions of regionalization remained subsidmiary, due to other tasks deemed more important for economic development. Not infrequently they served merely as "trial-grounds" for the socialist economic geog- 25 -

raphy about to be born. The drawbacks of the lack of a scientifically worked out system of regions were not immediately manifest, mainly on account of an extremely differentiated economic structure, as left over from the past in East-Central Europe. Thus, economically backward regions could be discerned without research of any kind.²²⁾ After a basis for socialist economies had been laid, when the most striking differences had been attenuated by integrating the poorly developed areas into the system, a new development came to be envisaged in regional politics: to lessen the marked differences in the living standards, among different areas of a country. This effort of regional policy also brought the qualitative aspects of development to the foreground.

Although there are features in the development of the territorial structure of each country that are unique, there are also common characteristics and identical trends due to the effects of economic laws and scientific progress.

The first of these common features is a more proportionate location of the productive forces, first of all in industrial development. The second common feature has something to do with the concentration of production. As a result of multi-centric regional development, a hierarchic chain of settlements emerged around the centres. Thirdly, the territorial division of labour increased both between larger areas within a county and between the countries. (However, there were still great differences in the quantity and quality of cooperation within the regions.)

At the level of social action, an important part in the planned creation of well-proportioned territorial structures came to be played by economic region-

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alization. It is mostly the intermediate level units that we have in mind. Regionalization was based on sound principles and was aided by a methodological outlook that enable people to define an area in the light of the economic tasks to be completed. The basic principles of regionalization were adopted in each country, though consensus could not be reached with regard to the number and hierarchic subordination of regions. Most experts defined economic regions as objective units. The most important characteristics were defined on the basis of the Soviet experience of several decades. They were complexity, specialization and manageability.

The interpretation of these characteristics was, and still is, far from being clear-cut. It is especially the idea of complexity that has been misinterpreted. One often hears opinions, that an economic region should not be developed in complexity in countries of relatively small areas. Most of the socialist countries fall in this category. There is an unfortunate misunderstanding here. The representatives of classical Soviet regionalization (N.N. Kolosovskiy, A.E. Probst and others) did not in the least identify this criterion with sectoral complexity or the autarchic development of the regions. Rather, they agreed in envisaging a method of planning, whereby the sectors of the structure would be developed in a planned and harmonious way. Further defined, these sectors referred to the interrelationships between production, distribution, consumption, population and natural environment. It follows that complexity must be regarded as a guiding principle that helps to perform the economic tasks of the district as well as to ensure that local needs are adequately met. The system of interrelationships just mentioned cannot be narrowed down to technol- 27 -

ogy. Complexity is a concept specific of economics.

One further important theoretic development is the differentiated interpretation of the concepts of manageability and management. It is clear that if an economic region is considered purely as a cognitive category, the last of the characteristics becomes negligeable. However, if the economic regions are viewed as the "cellular structure" of the planned economy, and economic regions are supposed to correspond to the administrative division, manageability becomes an important criterion. In this study there is no room for a taxonomic summerizing of the manageability of complex territorial structures. Instead | merely wish to call attention to the basic methodological differences between manageability and management. E. B. Alayev was right in linking the applicability of the former to the existence of the objective prerequisites of the latter (i.e. suitable functional links, and corresponding structural framework). Management as a concept is only legitimate when clearly referring to the system of bodies regulating economic processes.

Several theories have been advanced about the delimitation, formal and structural features of economic regions during the past four decades. This was independent from a conscientious application of the basic principles. While initially, regionalization was homogeneous based on naturally formed areas, after the foundations of socialist economy had been laid, structuring and integrating tendencies began to manifest themselves, not least under the influence of the theoretical and methodological developments in the disciplines concentrating on the spatial aspects of the economy.²³

One of the general features of socialist economic regionalization is that delimiting the regions, as required by economic integration, assigned an important

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role to the network of settlements around large cities. More especially, the economic and social influence of the large cities as gravity zones was emphasized. An obvious advantage of the above method is that the development process resulting from the interaction between centres and gravity zones can be analysed and forecast relatively more easily. Since in socialist economies the economic regions serve political, planning and development aims, it is no chance occurence that these regions comprise entire regional-administrative units - partly in order to ensure the correct functioning of intertwining interests and of the information chain.

Besides these general points, there are notable differences and particular features as to whether the aims and set-up of the economic regions have officially been declared and they function as real spatial units of planning and regulating the workings of the economy, or they are just trial-grounds for scientific fact-finding. In this respect, the socialist countries can be divided in two groups: in one, regionalization has been officially ratified at some level by state- and party decision. This group includes four countries. In the Soviet Union, 18 economic regions were designated by a decision of the State Planning Committee in 1963. In Hungary the economic regions were established in their present form in 1971. In Poland, a governmental decision established the number of macroregions. In Bulgaria a party decision fixed the regional arrangement.

The countries of the second group, comprising Czechoslovakia, the GDR and Rumania, have no officially endorsed region system. It seems that — with the exception of Rumania — those countries fixed their regions in central decisions which showed a greater degree of

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territorial-administrative division.

Some of the features of today's economic region systems are shown 'in Table 1. If we disregard the data referring to the Soviet Union, we can see that the average area of economic regions is between 15.4 and 39.6 thousand square kilometers and the average number of inhabitants varies between 1,500 and 4,300. Since in any country, differences between extreme values are 2.5 to 3 fold, it can be seen that regions of relatively equal sizes have been aimed at. (An obvious exception to this is Czechoslovakia, where there is a fourfold difference in the number of inhabitants between the Czech and the Eastern Slovak regions.) The lowest scores referring to population size relatively homogeneous, while there is a more are significant spread in higher scores. The Hungarcentral region is obviously first in line, ian followed by southern Poland and the southern economic region of the GDR. The peculiar patterns of industrial development in Czechoslovakia and Hungary explain why there are single regions in these two countries omassively partaking of gross industrial production and manpower. From this point of view, the most highly developed areas are: the south-west in Bulgaria, the Czech part of Czechoslovakia, the south in Poland, the central part of Hungary, the southern region of the GDR (though the Central-Elba region is hardly less developed industrially), the central and southern parts of Rumania.

Besides the economic regions, an important site of

Horváth, Gyula: Development of the Regional Management of the Economy in East-Central Europe. Pécs: Centre for Regional Studies, 1987. 51 p. Discussion Papers, No. 5.

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თ (39.0	48.1	25.1	4,300	6,200	2,400	245	52		4
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economic activity is represented by the territorial-administrative units. When the socialist mode of production was still a new phenomenon, all planning systems strictly observed a three-level administrative machinery, as required by extreme centralization. The territorial division of the state, subject to considerations of political power, was characterized by relatively large territorial units controlled angreat number of local communities. This fact, together with the allocation of financial means and a vertical network of a differentiated sectoral management system ensured the hegemony of the central state power. The stabilization of power, the socialist transformation of agriculture, the changes in the functions of the council system and the acceleration of settlement integration led to changes in the territorial management patterns in more than one country.

In some countries like the Soviet Union, Bulgaria and Rumania, there were several attempts at implementing reforms. By the mid-70's, the forms of territorial arrangement which best suited the individual countries were established. A few features of the territorial division of each country are shown in <u>Table 2</u>.

IV. SOME FACTORS INFLUENCING THE DEVELOPMENT OF REGIONAL ECONOMIC MANAGEMENT IN HUNGARY

As shown earlier in this paper, the regional management of socialist counctries witnessed some important changes due to the development of the productive forces and to the changes, in the structure of society. The most important feature of regional management therefore is that its complexities can hardly be approached with the

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Country	Number of territorial administrative units (counties)	Numbe minis	Number of inhabitants of territorial ad- ministrative units (thousand)	ad- nits	Average of units nated to administ units	Average number of units subordi- nated to regional administrative units	Per cent share of personnel active in state owned socialist industries	in s cia
		average	highest	lowest	district	camunity systam	highest	lowest
Bulgaria Chechoslo-	28	310	1,100	1 60	ı	10 ^{**}	15	1.2
vakia	12	1,200	1,900	300	10		16	2.2
Poland	249 20	510		260	ות	4 /	29	
G.D.R.	ភ	1,100	2,000	550	13	I	17	
Rumania Soviet	40	530	1,700	190	I	83	17	_
Union	135***	1,700	•	•	19	l	:	
* Source: S	<u>Source:</u> Statistical annuaries of the socialist countries and <u>Nekrasov-Kormnov</u>	es of the	e socialis:	t countrie	and Nekra	ov-Kormnov	(1976).	
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Horváth, Gyula: Development of the Regional Management of the Economy in East-Central Europe. Pécs: Centre for Regional Studies, 1987. 51 p. Discussion Papers, No. 5.

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traditional methods of research. This feature results from the effects of regional development trends and from the interaction between the vertical and horizontal division of labour. It is not only that of the data necessary for delimiting the functions and understanding the workings of regional economic management are provided by various disciplines. The task is further complicated . by the fact that regional economic management may include several elements of economic sub-systems. Integration into a unitary system is governed by the spatial forces of economy and of society in the first place. While the functions of sectoral management are relatively easy to discern since the relationships between the parts are called forth by hierarchic organizational patterns; in the case of regional management no homogeneous structure is available. Rather, they are situated, as it were, at the crossroads of various types of organization, with diverging tasks and functions. Thus, regional management cannot be equated with the tasks of regional administration, though the management functions of the people's representation are most closely linked to the socio-economic structure of the respective areas. Regional management is a much more complex activity. We can come closer to understanding the real situation by stating that some of the regional economic management functions are taken over by regional-level popular representation performed through their specialized bodies, others by the regional party- and social organizations. Some can be linked to the space organizing activities of the enterprises. Last but not least, some of the tasks fall within the competence of central administration steering the course of regional economic development.

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The methods of economic management are primarily conditioned by the development stage reached by the forces of preduction. Consideration will be given only to the factors conditioning regional economic management. Not only the main stages in their development will be touched upon, but those research tasks are also indicated which elucidate such areas of regional economic management that have not been sufficiently understood.

The most important factors determining the operation of regional management depend on the position of centralized and decentralized features, their relative importance and interactions within the general economic management. What is the meaning of decentralization in a socialist-type economy? It would be difficult to set up a inversally valid model. The various types can only be assessed correctly, if we consider the socio-economic relations of each country. No attempt will be made at any tentative solution. The characteristics of decentralized development are revealed on the basis of the Hungarian experience. Still, some of the conclusions might be valid for some other socialist countries as well.

Before embarking upon this tasks, it might not be amiss to elucidate certain basic concepts related to the functions of decentralization.

Economically, decentralization can be interpreted as an intricate network of actions aimed at increasing the ratio and importance of economic decisions taken at the level of economic units and local management. Economic decentralization makes it possible to reach decisions closest to the sites of material interests, thus strengthening economic independent- 35 -

mindedness while enlarging the scope of activity for regional management boards. It also allows for a substantially improved management activity at higher levels.

Decentralization, seen from a geographical point of view, does not naturally emphasize the mechanism of decision-making. Stress is laid upon the regional distribution of the forces of production. There is less territorial centralization. The new regional arrangement of the economy becomes the most important motivating factor, besides mobility in the economic apparatus. The mechanism of decision-making is also a key point of decentralization in management science. l t includes some firmly guaranteed local authorities not controlled by central bodies. There is an intermediary type of institution - the deconcentrated bodies - recognized in legal literature. These are controlled by the centre, though territorially they are deconcentrated and have deconcentrated institutions and authority. Upon closer scrutimy, there is much truth in the view that "... there are only slight organizational differences between decentralized and deconcentrated authorities... The borderline between decentralization and deconcentration is drawn by and within the organs of local and regional people's representation."24)

These conceptual definitions cover all such bodies and organizations as could be subjects and objects of decentralization. To put it differently, the functioning of the economy and social structure of a given unit is motivated by the interaction and rational division of labour between the centres. Hungarian experiences show that the measure and intensity of decentralizing tendencies manifest since the new economic

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management model was initiated, hide more or less substantial differencies. The scientific background, complexity, social acceptance and ideological consequences of the changes vary considerably in the new institutional system. Despite this fact, there is a well-discernible trend towards an unbroken line of decentralization.

The 1968 reform set off two decentralizing trends in company organization. The first trend was inherent in the inner structure of the reform. One of its main targets was to abolish the hierarchically organized sector-centered management and to implement a system whereby macroeconomical decision would be made on the economic management level, while individual tasks in the economy would be solved at company level. Thus there was a qualitative difference between the management level and the executive level; company management worked on a purely state - management. level, while the individual enterprises retained their company management functions, with widely enlarged DOSsibilities for decision-making.

This type of economic decentralization - which may be termed decentralized regulation, inevitably generated factors that did not enhance the further development of a reformed central administration. Rather, they widened the authority of sectoral management again. This first went alongside the initial regulation of market economy and was due to both objective causes and ideological uncertainty. The unchanged structural framework of trust, union and giant concern pattern was slow in meeting the challenge of the new economy. Thus by the mid-seventies hierarchic sectoral management was beginning to regain lost ground.
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In order to enhance decentralization it became necessary by the early eighties to cut up giant concerns and establish new state-owned small firms. Ten trusts and three concerns were divided into 137 independent firms by early 1982. Such a decentralizing - or rather deconcentrating - process may considerably stimulate efficiency. We prefer the term "deconcentration" since it is essentially the management process that came to be modified. Our data prove that there is a negative correlation in Hungary between the amount of capital and profitability. The average profitability of a concern with a 30-50 million Forint turnover (20.5 per cent) is two to three times as much as that of firms with over 700 million Forint turnover (6.9-9.9 per cent).²⁵⁾ Fxperts seeking to implement reforms in the Hungarian economic mechanism are unanimous in their belief that the structural framework should be reconsidered with a view to decentralization. There is general agreement in demanding the updating of central management to strengthen strategic positions. This demand motivated the creation of a unified industrial management system, whereby three ministries, each controlling a particular field of industry were merged in 1981...

A second trend of company decentralization is connected with the regional development of the forces of production. This, in a somewhat simplified sense, means industrial development in the provinces. Geographic decentralization became an economic key-issue after the 1956 counter-revolution. Its main aims were: error correction and attenuating some blatant differences in living-standards. The important step-up of the sixties brought about considerable improvement in poorly-developed areas. As an example, there was an 85 and 66 per - 38 -

cent increase respectively in the Great Hungarian Plain and southern Transdanubia as against a 35 per cent nation-wide industrial increase. A lot of industrial plants were moved into the provinces from Budapest. The movement was almost exclusively controlled by the availability of free manpower.

There was no co-ordination in the choice of sites until 1972. Competition for suitable sites made the clash of interests more acute. Economic efficiency was further hampered by the attitude of regional management that only wanted to improve living standards, while neglected the integration of new objectives into the immediate economic context. Thus not enough emphasis was laid on cooperation facilities, on the infrastructural background, or transport distances. (There was no incentive in the economic management system for exploiting the adventages of territorial integration. Such incentives are rare even in today's practice.)

The territorial decentralization of industries undoubtedly brought results of great significance in the Hungarian economy. This process has a beneficial influence upon the overall economic development of the different regions. It favoured regrouping manpower, it helped to maintain full employment, and facilitated social mobility. It also equalized incomes and increased the economic potential of small and middlesized towns. In the regional development of industries, the potentials inherent to an efficient use of resources could not be fully activated. Provincial industrial development mainly stayed within the decision-making powers of structurally concentrated companies. The new plants were given the ir tasks via a vertical division of labour. The minutest details continued to be con- 39 -

trolled from the center. In this section of the economy the plan-oriented approach of the fifties lived on. The most recent measures grant independent legal status to provincial units. Initial experience shows that their fuller integration into the horizontal division of labour has a beneficial effect on their efficiency.

The territorial decentralization of the forces of production has left its marks upon the settlement network as well. This trend contributed to the fact that the last two decades represented exclusively a period of urbanization. Most industrial sites were in non-rural settlements. Although there has been considerable increase in agricultural production, the population of the villages has further decreased. The situation of small villages of below 500 inhabitants has become especially serious (their actual number is 831). Massive concentration of administration, agricultural management, education and health-care facilities came a s a shock to villages with less than two or three thousand inhabitants. The difficulties were further piled up in that these villages obtained a very small part of the funds set aside for development. The cities were strengthened to a point where today there are five large towns, 13 mediumsize towns and over 100 towns, potentially regulating the socio-economic life of their own social gravity zones. The regional differences among groups basically result from the different degrees of infrastructural development. A necessary condition to abolish the resulting social tension is to start a stronger decentralization - deconcentration process in settlement development.

The economic boom of the sixties, i.e. after the counter-revolution of 1956, brought decentralization to

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the <u>structure of councils</u> also. In the five years preceding the new economic management system the work of the councils was substantially changed. The traditional organization framework was broadened to allow for a greater degree of initiative. Council planning and management were transformed so as to make a gradual transition to real county-level local self-government possible.

The economic basis of county independence was to be assessed with respect to the threefold economic function of a county, i.e. achieving the goals set by the central bodies, directing council management and planning co-ordination. Economic management had to switch over from a formerly centralized budget administration in order to meet the new requirements of management. Independent financing in all the spheres of social activity was an extremist view, unfounded in the economic conditions of those years. Such a move would be haphazard even in today's stage of development. An important function of a socialist state is to provide central support to the development of non-producing infrastructure. Territorial projects could only get under way like this, i.e. by making use of local resources; if one of the main targets of socialist regional development were renounced of, namely to counter inequalities in the standards set for different regions. (The uncertainty in the short transition period following the reform led to the phenomenon that the more developed counties mainly invested in public service development, while the less advanced counties spent their funds almost entirely on creating new jobs.)

Decentralization trends in the council system were summed up in the 1971 Council Act.The Act stipulated

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that the authority of local and county councils would be wider and different from what it had been before. The districts, for example no longer had authority in economic management. The over-centralized management has already been simplified by the elimination of double subordination. The Act stipulated checks and balances of economic, organizational nature, to ensure that the self-governing tendencies of the councils are considerably strengthened.

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- Az SzKP XXVI, kongresszusa. p. 289. (26th Congress of the Soviet Communist Party)
- ² <u>Az MSzMP XII. kongesszusának jegyzőkönyve</u>. p. 475. (Minutes of the 12th Congress of the Hungarian Socialist Workers' Party)
- ³ <u>A Bolgár Kommunista Párt XII. kongresszusa</u>. p. 20. (12th Congress of the Bulgarian Communist Party)
- ⁴ Ibid.: p. 23.
- ⁵ |bid.: p. 35.
- 6 <u>LENIN Összes Müvei</u>, vol. 36. p. 141. (The Complete works of Lenin)
- <u>LENIN Összes Müvei</u>, vol. 44. p. 477. (The Complete works of Lenin)
- ^o Sec: "Capitalism in Russia". <u>LENIN Összes Müvei</u>, vol. 3. (The Complete works of Lenin)
- 9 ALEKSANDROV, I.G. 1957. pp. 71-72. Regionalization in the service of overall economic management is detailed in the assignment agenda of the relevant sub-committee, stating the following tasks: 1. to elaborate the principles of economic regionalization; 2. to establish the actual regional and territorial division of Russia; 3. to co-ordinate local interests, in cooperation with the local bodies; 4. to help local economic councils in elaborating the economic development plans of the regions; 5. to clarify relationships between local economic bodies and the central authority and to establish the scopes of authority: 6. to clarify the organizational pattern of the local economic bodies on the basis of their economic role. lbid.: pp. 66-67.

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¹⁰ The extreme divison of sectoral management is shown by the fact that in the mid-fifties, there were nearly a dozen industrial ministries even in the socialist countries which had less economic potentials. Subordinated directorates were several dozens in number.

¹¹ BISAEV, M.A. - FYODOROVICH, M.M. 1961. p. 28.

- ¹² See: <u>Direktivy po hozyaystvennym voprosam.</u>.. p. 635.
- ¹³ Initially, the newly established economic management regions observed the borders of former territorial administrative units. At first 92 regions were planned for. Their actual number soon rose to 105, to be reduced to 47 shortly afterwards.
- ¹⁴ The people's economic councils were considerably different from the institutions of the twenties. There was double subordination in most territorial economic bodies. In their capacity of independent organizational units within the territorial Soviets they were also directed by the Supreme Council for the people's economy. Under these circumstances, several specialists demanded in the fifties, that they should in the long run be subordinated to the territorial councils.
- ¹⁵ Coordination and planning councils were set up in the 17 economic regions in 1961, and abolished in February 1963. However, they were reorganized in the same year under the name of' planning councils' in 16 regions. Their authority came to be restricted to analysis and giving advice. These swift changes prove there were no scientifically documented views on regional management.
- ¹⁶ The seven-year plan adopted in 1959 stipulated a 62-65 per cent increase in national income, 80 per cent in

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industrial production, and 70 per cent in agriculture. Actual figures were: 37 per cent, 51 per cent and 13 per cent. (Source: STARK, A. 1980. p. 159.)

- ¹⁷ The territorial management structure of the GDR was modified in 1952. The heritage of former Germany – the five Lands – was unsuited to a swift establishment of the interior economic channels of the socialist German state. The newly established 14 territorial units were delimited on the basis of economic regions mainly. An important role came to be assigned to the political considerations which were "aimed at crushing the formerly strong self-government in these units, in order to strengthen central power.
- ¹⁸ The newly established counties had territories of 3-5 thousand km², and 200-300 thousand inhabitants. Half of the counties had 30-50 industrial enterprises. One county typically yielded 2-5 per cent of the country's industrial production. (<u>SABUNINA,</u> <u>V. 1959.</u> p. 138.)
- ¹⁹ These production unions were basically different from the intermediary bodies set up when the GDR was born in that the member firms of the unions were avowed independence in management.
- ²⁰ MIKULSKIY, K. 1958. p. 148.
- ²¹ The models set up for state organization in this period are comprehensively dealt with in <u>BIHARI</u>, 0. 1968, 1969, 1983.
- ²² Poland's example shows, that 56 per cent of the manpower concentrated in three, industrially der veloped areas by the end of the forties. The northeast only gave jobs to 3 per cent. In Czechoslovakia, the Slovak territories provided less then one fifth

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of the national income within the same period. 68 per cent of Rumania's production, and 55 per cent of the manpower were concentrated in two large regions in 1938. Meanwhile, the territories where 40 per cent of the population lived provided no more than per cent of industrial production.

23 A sequel of applying different features of spatial structure was to have a varying number of hierarchically higher regions. In this respect, the most unitary picture comes from the GDR. Different authors identified 4 to 6 regions, more or less covering the historically-established Lands. There was greater spread of between 3 and 20 regions in the Bulgarian proposals: 7 in 1934 (Beshkov, A.)., while in the early fifties Jordanov, T. proposed 5, Marinov, Hr. 3 and Penkov, 1. 20 economic regions. The geographical monography published in 1961 recognized 6 and the volume of studies published by the Bulgarian Academy of Sciences mentions 3 economic regions. Nowadays there are 8 territorial production complexes to facilitate placement of the forces of production. At the party conference in 1978 a proposal was made to establish 6 regions on the basis of sectoral and territorial concentration and specialization. In Hungary, various proposals have tried to solve the problem differently. The smallest number of regions can be found in Krajkó Gy. He established 4 regions based on large geographic units. Other studies, based on sectoral or regional development criteria mention 6 to 10 units. Nowadays there are 6 regions for the purposes of long-term economy planning. Problems were caused in all countries not only by the methodological issues raised.

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One further issue was how to coordinate the administrative division of the country with its economic regionalization. There is a need for further research here. Most specialists in economic geography favour the dialectic unity of the two division procedures, the regional features of today's administrative units are interpreted differently in different countries.

²⁴ BIHARI, O. 1983. p. 144.

²⁵ KORNAL, J. 1982. p. 15.

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