

SYSTEMIC CHANGE AND POTENTIAL TRENDS OF REGIONAL DEVELOPMENT IN HUNGARY

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Hungary's silent revolution is smashing up the institutions of the monolithic party state without shocking the society and is in the process of reinstating civil society as it has been expected. The initial steps have already been taken towards the equality of the different forms of ownership and the establishment of a quasi market economy based on free enterprise.

The coalition led by the Hungarian Democratic Forum intends to modernize Hungarian economy in a centralized way¹ and make it competitive by allowing, at the same time, the restoration of the nation's traditions to their old splendour. This twofold objective cannot be realized without conflicts. On the one hand, Hungarian culture is viewed as it was some four to six decades ago, unchanged. On the other hand, certain elements of modernization, like mass production for the world market, automation, the use of robots etc. are of a cosmopolitan character and therefore work against historic traditions. Modernization requires constant mobility, the maintenance of adaptability, which may conflict with the "popular" and utopian aspirations.

The Alliance of Free Democrats², the strongest opposition party does not consider a specific Hungarian solution feasible but on the basis of Central and South American examples refuse a "middle-of-the-road" solution as well. In a simplified way their opinion is that our only possibility is to follow the pattern of the well proved (?) state capitalist system.

The misconceived development policy and the subsequent crisis of the Soviet-type socio-economic systems have strengthened some of the regional conflicts and bequeathed us some new sources of social-regional tension. All political forces agree that **the key issue of transition is the modernization of the economy**, the stimulation of efficient activities and the elimination of loss-producing activities. Restructuring started in the 1980s and forced us to realize not only the existence of the backward areas but also that of the obsolete industrial regions. Evidence suggests that at the beginning of social-economic modernization, with the increase of monetary regulation, **regional interests lose importance**, therefore a shift towards democracy is temporarily unfavourable for regional equalization. Researchers specializing in regional studies must warn that the more liberal market mechanisms and the lack of a suitable regional policy and an institutional system may lead to the increase of regional tensions and these, in turn, may hinder the transition itself. A kind of policy that takes into consideration regional identity and local interests

can enhance the reform process and release new forces supporting development for a more efficient satisfaction of local interests.

TRADITIONAL DEVELOPMENT ENDEAVOURS AND THEIR LIMITATIONS

The government expects that an increased economic growth will stabilize the new order. The best way to achieve quick results, i.e. to produce more output or profit, seems to be the investment of more and more capital into the economy.

Capital accumulation is limited by the backwardness of the economy and the requirement to maintain the present level of consumption. Further accumulation of **debts** is not an acceptable solution, either.

Hungary, like all the other Eastern European countries, including the Soviet Union, hopes to develop its economy with **foreign help**. In my opinion, however, none of the former socialist countries will be given the amount of foreign capital that would be sufficient to help out their national economies. The USA has no interest in a rapid progress of Eastern European countries.³ Although the USA shows a positive attitude towards the disintegration of the Eastern bloc it cannot be expected to encourage those processes in Eastern Europe that, in the long run, will contribute to the strengthening of Western Europe considering that its own position in the world market is weakening. As to the interest of the EC countries in Eastern European changes we can say that they merely concentrate on avoiding the potential disadvantages of these processes. Germany is aware of the importance and chances (!) of Central and Eastern Europe but the unification of Germany and the protection of the national currency may require that resources be invested in their own country.

There has been a great interest on the part of **foreign private capital**, which, however, is channelled to more dynamically developing regions, world centres by the requirements of profit maximization and increase in productivity. Political instability⁴, red tape, lack of information, low level of efficiency caused by our backward infrastructure and unwillingness to co-operate make it very difficult for our economy to attract capital. Capital investments that are made in Hungary in spite of the above drawbacks, are concentrated in areas where profit expectations are high, therefore the lack of regional preferences allows capital to **flow into areas that are more developed already**. In the case of really mobile international capital we must take into account the possibility that it will not remain in Hungary if investments become more profitable or safer elsewhere.

Hungary, like all the socialist countries in general, fell behind in technological development. Therefore, the advance of our economy strongly depends on how fast high technology can be introduced. There is, however, no hope for spectacular changes in this field either. Besides the measures of discrimination (e.g. the Cocom list) it is primarily the low level of the infrastructure, the obsolete structure of labour and the general attitude towards work that hinder the adoption of modern technologies. In order to keep our leading position we would have to compete with highly developed firms of considerable capital, or

if we were just to follow them, we would have to compete with the low wages of the Far East.

It is primarily the key industries and those which have a central location (in a town) that have a chance to renew their technologies. Consequently, the countryside will become even more backward. Even if some high-tech companies were established in less developed socio-economic settings we still would have to take the risk that they may remain isolated and could not have the multiplying effect required. Their impact on the structure of local society and social mobility will not always be favourable. High-tech requires highly qualified white collar workers and low-skilled blue collar workers. Top managers and technocrats usually come from "above" together with the new firm and technology, while the middle layer of the local society (technicians, skilled workers) will have difficulty finding jobs. This impedes social mobility and the communities living on the periphery remain defenceless.

In the present situation when foreign capital cannot be expected to be invested in significant amounts and there is over-employment in the economy, the most reasonable way of increasing efficiency is the redeployment of resources. Switching over to the production of high-productivity goods would require the introduction of new technologies, which, in turn, would bring about the above described difficulties. A further dilemma related to this change is that transition will temporarily increase unemployment before it can be stabilized at a level which is in conformity with the development of the economy. Since the mobility of the population is relatively low, the spatial changes in the economy can be followed by the movement of labour only with delay. All this may lead to dangerous regional tensions.

All political forces count on the entrepreneurship and shavings of the population. I also believe that this is the basis on which our hopes can be built and better results achieved⁵ but an increased "freedom from" something does not necessarily lead to "freedom to do" something. In the last forty years the paternalistic party state based on the communist ideology made serious efforts to wipe out entrepreneurship. This is the reason why it is not enough just to allow the operation of private business and create the political and legal conditions of a market economy. The prestige of the private enterprise should also be restored, together with the establishment of new institutions and mechanisms that promote the founding of new enterprises and serve them during their operation. Fortunately there are more and more institutes offering training for entrepreneurs and managers, or management of investments and ventures. Yet, we have to face adverse attitudes and even fears. The government has developed a programme to activate business, however, it seems to have the intention of restricting real market-like operation to small business, trade, catering and services. The government wants to control transition and perhaps further operation centrally, which can be realized through the institutions staffed with active members of the Hungarian Democratic Forum. They think in terms of a reform directed "from above", structures and a hierarchic system based on good or bad assumptions. This does not make it possible for those who have just started to re-enforce their own interests to catch up with the others.

Legislation first allowed the establishment of new, private or joint stock enterprises in January, 1982. Since then thousands of new enterprises have been started mainly in the

capital and larger towns and follow the patterns of a **strong regional hierarchy**. As to the level of the settlements or regions it can be stated that these businesses are **concentrated in the developed areas thus strengthening the tendency of regional differentiation**. Consequently, structural decentralization did not go together with regional decentralization.

Privatization beginning in trade and the catering industry again opens up new opportunities only for entrepreneurs living **in towns**. The transformation of the large and medium-size companies will allot property primarily to the former managers and perhaps the workers. The privatization of land or its return to the previous owners will be favourable for those who live in more developed rural areas with higher quality soil and good location. The profit to be gained by private entrepreneurs or local governments from property in economically backward areas is expected to be much lower, therefore the relative backwardness of these regions will increase. Consequently, privatization has widened the gap between developed and backward regions: in towns it has strengthened potentials for innovation, new enterprises, the development of the infrastructure, while backward areas may have to give up hope of any development.

In a dynamic economy the structural crisis of the formerly developed industrial regions is a constantly recurring phenomenon. What differentiates a healthy economy from a static economy, unable to renew itself is not the fact that in a healthy economy companies cannot go bankrupt or people do not end up unemployed but rather the fact that the means of production released in this way are reinvested into production in a relatively short time. In countries where it does not happen automatically even in the long run, the local, regional and national governments have to intervene in order to redress the economic and regional equilibrium.

In the case of Hungary the previous practices of development and covering up of emergency situations (may) lead to very deep regional crises. These sometimes require individual solutions. At present there is a crisis management programme in Hungary that has been developed with foreign participation.⁶ In these crisis regions job-creating investments may enjoy tax reduction. The establishment of retraining centres and continuous education has started. A measure to relieve individual hardship is the introduction of a "protective net of social benefits" (mobility fund, redundancy money, early retirement etc.).

Nowadays social tension is stronger and more evident in regions which have gotten into a crisis than in those that are backward and suffer from several disadvantages. At the same time, the present crisis management programmes produce better results in the former than in the development of the backward, rural regions. The premises of the firms that have been closed down cannot be moved, the mobility of population is very low, the existing infrastructure can reduce the costs of a new investment. In the depressed areas better infrastructure, more advantageous demographic and qualification structure of labour provide more favourable conditions for new enterprises.⁷

Handicapped rural areas will get into a more difficult situation with the increase of market forces, since they do not possess any local resources for revival. The social and economic pauperization of these regions is the consequence of the former policies and practices of development, therefore it is the duty of the society to help those who live

there. The only way to do so would be a positive discrimination. Besides the overall lack of resources the situation is worsened by the possibility that the measures required in these regions may be in conflict with some macro-trends of the transition, such as the elimination of exceptional deals, the reduction of subsidies, the requirement of economic efficiency and the introduction of the market economy in general. International experiences have shown that at the time of recession governments tend to give priority to efficiency as opposed to equity in regional development. Returns on investments in backward areas are slower, less efficient therefore, in the short run, this slows down the national renewal programme, and the government will not be interested in such investments.

In conclusion we can say that the trends taking shape at present will lead to further social and regional differentiation. It is more than reasonable to examine whether in this situation we should increase the mobility of the population and make the decline more tolerable or hope to discover a kind of development strategy that may provide a realistic alternative besides or instead of the programmes that create such anomalous situations.

DEVELOPMENT STRATEGY BASED ON LOCAL-COMMUNITY INITIATIVE

The course of development dictated by the developed Western countries could be followed by Hungary only if some miracle (so far unrecognized objective trend) enabled us to catch up with them to such an extent that we could produce these strategies of development and benefit from them. Unfortunately our chances to achieve this are slight. In the case of Hungary "modernization from external sources" is only a substitute for organic development and this is far from the optimum condition. Even if the justification of the centrally initiated (region) development efforts is accepted we must point out that these efforts will not have the same effects and not at the same time on the individual regions and settlement types. There will always be some regionally separated communities that are either avoided by the macro-trends of development or unfavourably affected by them. In a democratic society ethnic, regional or local communities are not forced to passively tolerate these unfavourable effects; on the contrary, they can take an active part in changing their lot.

There are several theories that offer a more equitable, well-balanced regional development (community, self-reliant, endogeneous, self-directed etc. development).⁸ A common, just emerging principle of the "alternative" development concepts is called **post-modernism**.⁹ Theories which have accepted this principle or contributed to it apparently **deny modernization**, the previous forms of development, **actually go beyond it**. Most economists today have realized that development is not identical to economic growth but rather a complex human-social phenomenon. Economic growth can mean at the same time development for a community only if it contributes to a progressive change in the socio-economic structure, increases opportunities open to the population and improves living conditions. According to this concept of development, increase of production flexibility can take place not only within production itself but it can make people or their different communities more adaptable, open and therefore more competitive.

The common starting point for the alternative development strategies is the refusal of modernization based on the logic of (international) capital. The importance of space (regions) within the social and economic relations is increasing. Some borders lose importance, while our ethnic, cultural and living environment becomes important again. For some time the "Iron Curtain" could prevent us from good or bad influences, protect us from the development produced and dictated by the West. Our task today is to enable individuals and their communities to protect themselves from harmful effects, and give them a good chance to acquire benefits. For the first time in our thousand-year history we should try to shape the trends of "development from below". Development initiated locally on the regional level can explore the specific resources more efficiently, it can also utilize these resources according to the real interest of the local population and fill those economic gaps that are left by macro- or micro-economic policy. By creating new jobs it can reduce both national and regional unemployment. It can relieve the burdens of the central budget thereby reducing withdrawal of resources, which, in turn, can improve the efficiency of the utilization of profits and incomes gained.

Legislation that is under way now will (hopefully) allow local governments controlled by the political parties, organizations for the safeguarding of people's interests, religious and other communities to act independently in the interest of the regional and local communities. There is no guarantee that this arrangement will lead to a more even regional development in the traditional meaning of the term but will certainly mean the beginning of a more efficient and equitable stage of development.

**SUMMARY (ANSWER TO THE HUNGARIAN DEMOCRATIC FORUM
— ALLIANCE OF FREE DEMOCRATS DILEMMA MENTIONED
IN THE INTRODUCTION)**

The task to be solved in Hungary today is not to mummify the ancient, cultural-national virtues but to find a path of development that can help us preserve community values, national identity and maintain the balance of the environment. Traditionalism may be suitable for preserving our national culture but on the basis of post-modernism we can conclude that development is strongly dependent on our ability to integrate the values of many different cultures without becoming victims to "cultural imperialism" and having our preferences internationalized. It would be foolish on our part to reject modernization in general and to deny ourselves the achievements of the affluent society. The kind of development strategy which prefers local initiatives to a central development policy built on a single doctrine, which tolerates differences and is in a well-balanced relationship with nature, **does not necessarily mean a specific Hungarian path.** The hedonistic consumers, disgusted with the affluent society, the desperate survivors in the Third World and all those who have just come to the daylight from the darkness of state socialism all are looking for something else.

The megatrends¹⁰ outlined by NAISBITT (1987), who used primarily the American experiences, are decisive elements of the changes that are taking place in our days. These

or development initiated locally and the related European experiences (BASSAND, M. ed. 1986) all point in this direction.

NOTES

¹ Similarly to the Third World countries, the former socialist countries often seem to believe that modernization means the repetition of the Western European and North American trend of development in the given circumstances. This goes together with the rejection of traditional life patterns and customs, the formation of new institutions and a new social elite. Modernization "frees" man from the traditional regional, racial, sexual etc. constraints.

² If the present coalition government fails, the Alliance of Free Democrats (SZDSZ) has the best chances to form a government.

³ The USA once again misses the opportunity to increase its influence in Eastern Europe. Their reluctance to invest capital here will slow down transformation in Hungary and opens the market to Western European and (perhaps) Far-Eastern capital.

⁴ It is not yet known to what extent the government intends to involve foreign capital into privatization, the renewal of the economy. The Hungarian Democratic Forum has stated that they would primarily support the emergence of Hungarian small and medium-size businesses (properties), which will take a long time. The regulation that is in force now and legislation concerning privatization do not favour foreign investors.

⁵ This view is justified by the fact that in the early 1980s all the surplus product in Hungary was produced by the newly established or the already existing private businesses.

⁶ For example, a concept and action plan for the regional development of Northern Hungary (the region of Ózd) was developed in 1989.

⁷ These advantages are, of course, only relative as compared to the backward rural areas and not to those settlements that enjoyed an even development throughout history.

⁸ Not all of these are applicable in every region. The self-directed strategies that rely on inner development and promise a "modern" type of development with traditional means, can be applied only in regions that are already developed or fall within the macro-trend of development. (FRIEDMAN, J. 1986. In: BASSAND, M. et al. eds. 1986)

⁹ At present it is difficult to define the real meaning of this alternative stand-point. This concept, in contrast with the former criticism of modernization, justifies its existence and name by not only analyzing the crisis of modernism but also by offering solutions. It suggests replacing egoism with solidarity, hedonism with temperance, and completing rationalism with intuition and meditation. It states that further development cannot be the result of specialization, the increase of complexity and the growth of the producing units but of differentiation and variety. This concept refuses any kind of dominant doctrine or totalitarian ideology. The source of development is the multitude of languages and cultures, in the broadest meaning.

¹⁰ These megatrends are: the transformation of the industrial society into the society of information; decentralization; self-reliance instead of institutional support; increase of democracy based on participation; the replacement of hierarchic structures with the network of complementary units etc.

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