1. INTRODUCTION

Hungary is now in its eighth year of transition from what was generally labelled “state socialism” to a market-based economic system. When taking stock of the progress so far, we find both good news and bad news. On the positive side, there is every reason to believe that the basic institutions of a developed market economy have taken firm root in Hungary. The degree of liberalisation and deregulation, the steadily growing share of the economy accounted for by the private sector, the behaviour of economic actors, and the openness of the economy all point in the right direction.

Nevertheless, despite the proven success of systemic transformation, the enthusiasm of a great part of the Hungarian population is fading. Early hopes have seemingly given way to a prolonged phase of “reform fatigue”, the main cause of which is the poor performance of the economy. At the beginning of the transition period, hopes were high regarding the short- and medium-term benefits of reform. It was expected that a decisive move towards the market system combined with sound macroeconomic policies would soon translate into increased efficiency, sustainable growth, and a tangible rise in living standards for all major groups of society. Over the years, this illusion has evaporated. Hungary has still not overcome its phase of unavoidable “transformational recession”, or stagflation.

The first two years of the transition saw a steep decline in output. This was due mainly to the fact that Hungary had lost a major part of its traditional markets. By 1992, exports to former Soviet-bloc countries were at less than half their 1988 value. In 1993–1994, there were signs of a revival in the economy. As a result, monetary and fiscal restrictions were prematurely relaxed, resulting in rapidly growing economic imbalances. By the end of 1994, the Hungarian economy was near a crisis situation. The magnitude of the twin deficits, those of the central budget and the cur-
rent account, called for strong intervention. A fundamental shift in economic policy started with a stabilisation programme based on austerity measures, introduced in March 1995. The main goal of these measures was to cure macroeconomic imbalances by curbing domestic demand. Real wages in the public sector and social security payments were reduced, and the forint (the Hungarian currency) was considerably devalued. At the same time, a strong commitment was made by the government to speed up privatisation, which was regarded as the most important means towards achieving the desired restructuring of the economy. After three years of implementation, the austerity package is yielding results, at least partially. External balances have considerably improved, and productivity is growing. The tensions of the central budget have also been eased by the huge receipts from privatisation. On the other hand, inflation is still too high and investment is sluggish. Unemployment figures, which have been hovering around 11% for the past few years, warrant no optimism either, at least for the remainder of this century.

The restructuring of the economy has been under way since the earliest days of reform. Most of the jobs lost were in agriculture, industry, and construction, while the proportion of the service sector in the economy has increased considerably. Within the industrial sector, it is heavy industry which has shed the most labour. In both the coal mining and steel industries, the number of employees fell by more than half between 1990 and 1995. The same general trend can be found in the textile industry. It is interesting to note that contrary to expectations, employment in the government sector (excluding state-owned enterprises) has expanded rather than shrunk.

The aggregate data conceal an important feature of the quality and speed of restructuring: its regional dimension. Examples of successful restructuring can be found in Budapest and in a number of counties and micro regions in the western half of Hungary, which benefited most from the change in systems. These regions were already at a higher level of development at the beginning of transition, and have now attracted the most foreign and domestic capital. The less developed regions missed these crucial inputs. In the most crisis-ridden areas, rather than new burgeoning enterprises one finds unutilised and obsolete industrial plants and a high number of unemployed persons with minimal chances of finding work.

It seems, therefore, that the social costs of transformation are unevenly distributed geographically. In other words, switching to the new system aggravated the historically given regional inequalities to a degree unfore-

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2 These tendencies are not new, however; they have been apparent since the early 1980s.
seen by experts. Backward rural and heavy industrial areas suffered the most from what was the core of market-oriented reforms: price liberalisation, elimination of state subsidies, and so on. The same regions proved to be the least attractive for new businesses (domestic and foreign alike), and they also lack many factors that determine the endogenous entrepreneurial drive, such as a developed infrastructure, an educated workforce, and know-how in the area of SME development.

The regional dimension of the economic transition does not seem to have received sufficient attention thus far from political parties or state authorities in Hungary. This should be considered a mistake, both from a national and an international point of view:

- Different development scenarios of Hungarian regions could lead to enormous economic and social tensions which would seriously hinder transition and the development of the country as a whole, and cannot be regarded as a necessary and tolerable price of transition.
- During the process of harmonisation with EU standards, adjustments should occur not only at the national level, but at the regional level as well. This requires implementation of new regional policies in agreement with those in EU countries.

Hungary – like other countries in transition – faces serious dilemmas in this process. We refer here to choices such as those between central intervention or a decentralised system of regional autonomy; between “non-intervention” or an active regional policy; and the dilemma of redistributing development funds among stronger and weaker regions. All of these problems derive from a fundamental feature of the regional aspect of transition, namely the exposure of huge and persistent differences between characteristics of local labour markets. There is no doubt that emerging regional differences are manifested most obviously in various forms of labour market tensions – e.g. local employment crises, mass dismissals, unemployment, underemployment, or inactivity. A high degree of regional unemployment differences cannot be seen as an unavoidable consequence of increasing overall unemployment. In a number of market economies, unemployment multiplied without increasing regional differences in the 1970s and 1980s. Persistence of regional differences is not a manifestation of any iron law of economics. In many western countries, regional employment crises

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3 The initial experiences of transition countries and these dilemmas are discussed in G. Gorzelak (ed.), *Dilemmas of Regional Policies in Eastern and Central Europe*, Warsaw: University of Warsaw, European Institute for Regional and Local Development, 1992.

are transient and the relative positions of regions change over time. In Hungary, the contrary can be observed: the relative positions of the various regions have hardly changed. Nevertheless, recent studies on labour market obstacles to regional economic development show that neither internal migration nor daily commuting could effectively decrease the regional differences in unemployment. A more promising way to diminish regional labour market imbalances could be to increase the local employment capacity of regions hit hardest by employment tensions. Development of local employment capacity falls within the scope of employment and regional development policy.

In view of the tendencies mentioned above, we will focus on the labour market consequences of economic transition in Hungary in the following three sections of this paper. In section 2, we will briefly describe the regional aspects of the transition. Section 3 will discuss some important characteristics of employment policy and regional policy in response to regional challenges. Section 4 shall then explore recent developments in these policies and offer some recommendations for decision makers in the area of regional and employment policy.

2. REGIONS AND LOCAL LABOUR MARKETS IN TRANSITION

It became clear from the very beginning of the transition that some regions could adjust to the requirements of a market economy swiftly, while others with different characteristics were unable to do so. Readiness for entrepreneurship was found to be closely related to geographical location, development of infrastructure, level of education of the local inhabitants, and the existence of an entrepreneurial culture and tradition in the region.

2.1. Regional aspects of the economic transition

Before World War II, Hungary was plagued by huge regional differences, as were many countries on the European periphery. The switch to socialist planning induced economic and social processes which

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resulted in a certain levelling of the differences in socio-economic development, employment, income levels, qualifications, housing, and the availability of public utilities between counties or smaller regions. It is important to note, however, that this reduction of spatial inequality was not the result of a coherent vision of regional policy, but rather a by-product of socialist industrialisation. Forced structural change in favour of heavy industries was carried out through central allocation of investments. In the logic of the system of the planned economy, efficiency considerations played a minor role in socialist industrial policy, if any. Loss-making companies could survive because of the continuous supply of state subsidies.

During the 1960s and 1970s, increasing scarcity of labour played the most important role in spatial equalisation. As a result of the peculiarities of central planning, the labour market was characterised by an overall shortage of manpower, which also implied that there was no open unemployment even in the most backward regions of the country. Nevertheless, there were considerable regional differences in the ratio of vacancies to job-seekers. The massive job creation by large industrial companies establishing sub-divisions or branches in remote rural areas in the 1970s was primarily the result of the availability of “cheap” labour.

In the 1980s, traditional sources of economic development (labour, land, and capital) were exhausted, and large-scale spatial processes based on a redistribution of development resources were slowing down. Nevertheless, some early forms of new SME development emerged, and were concentrated in the most developed, urbanised regions. There were already some indications at this time that hidden regional tensions might sooner or later break to the surface. Since the government followed the policy of concentrating diminishing central funds on the support of ailing industrial giants, the agricultural crisis became imminent. One could also observe the beginnings of depression in regions dominated by traditional

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## Table 1  Indicators of regional differences (as a percentage of the national average in 1993)

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<td>148</td>
<td>178</td>
<td>85</td>
<td>45</td>
<td>56</td>
<td>59</td>
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</table>

(a) Ratio of sales of profitable companies in the total sales of industrial companies in the region.
(b) Public and business services.
(c) Average capital investment per one foreign investment transaction in the region.
(d) Number of companies with or without legal personality per 1000 habitants.

Source: CRS, A Magyar Köztársaság Nemzeti Területfeljegyzési Koncepciójának irányelvei [Guidelines for the National Regional Development Concept of Hungary], Pécs: Centre for Regional Studies, Hungarian Academy of Sciences, 7.
heavy industries (e.g., coal mining or steel production); perhaps this trend is best exemplified by the Sajó Valley industrial region, in the north of the country, an area formerly considered to be developed. Before the change in the political and economic system, it was already clear that the burgeoning private sector had very different growth potential in individual regions. In 1983, half of the total number of small entrepreneurs (large or even medium-sized private companies were non-existent at that time) were registered in Budapest, and a further 25% in towns with over 50,000 inhabitants.

Switching to the market-based system in 1990, most of the subsidies to enterprises, sub-divisions, and sectors were abolished with one stroke. Many of the companies unable to adjust to the new conditions went bankrupt. Backward regions where the situation had temporarily improved in the socialist era were hit hardest because of the very nature of their former development, which almost invariably involved the adaptation of labour-intensive, underdeveloped technologies in both industry and agriculture. During the transition period, differences in economic and social development became apparent at several levels, as discussed below.

County-level differences

According to the administrative divisions of 1 January 1995, the territory of Hungary (ca. 93,000 km²) consisted of 3125 settlements, including 194 towns. There are 20 medium-level administrative units in the country: 19 counties plus the capital, Budapest (see annex, map 1). Table 1 shows substantial county-level differences in some indicators of the emerging market economy.

It is regional GDP data which we think are the best indicators of regional differences in economic performance. Like other CEE countries, Hungary experienced a sharp decline in output in the transitional period, mainly because of the loss of former trade outlets in Eastern Europe. While the deterioration of local economies in the fields of agriculture and industry swept throughout the country, one could observe considerable spatial concentration of economic recovery. Map 2 shows

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In Hungary, the term "county" refers to a NUTS-III administrative level, in EU terms. On the conformity of the Hungarian and EU territorial division and statistical systems see: E. Faluvégi, Regional Statistics in Hungary, paper presented at Seminar on Regional Statistics, Austria: 5–8 March 1996.
### Table 2  Changes in regional distribution of per capita GDP (1992–1994)

<table>
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</table>

(a) Budapest excluded  
the income level of each county, according to GDP per capita as a percentage of the national average in 1994.

In the case of Hungary, we have county-level GDP data based on experimental calculations only for the years 1992–1994. What we have concluded from the available data is that in these two years, the regional gaps remain unchanged (see table 2). The changes in the rank of the counties suggest that areas hurt most badly by the transition were industrial and agricultural regions located off the Vienna-Budapest axis (e.g., Borsod, Nógrád, Komárom-Esztergom, Somogy, Tolna). In international comparison, the regional differences in income in Hungary are more or less equal to those in Poland, while they are significantly greater than in EU countries.

**Regional differentiation at the level of macro regions**

Dichotomous comparisons are characteristic in Hungary: eg Budapest vs. countryside, eastern vs. western, or northern vs. southern parts of the country. Recent analysis on economic performance and expectations shows the most dynamic development in regions along the Vienna-Budapest axis. The results of the eastern counties’ “catching-up” period in the 1970s and 1980s vanished quickly. The emerging market economy re-established the old pattern of regional differences between the eastern and the western half of the country. One can see certain macro regions appear which include several counties and show different development tendencies. There is no doubt that Budapest and

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10 I. Illés, “Regionális politika: Felzárkózás vagy lemaradás” [Regional Policy: Disturbances or underdevelopment], Európai Tükör [European Mirror], No. 2, 1996.

11 On recent tendencies in regional differences in entrepreneurial expectations, see: M. Hegedűs, A vállalkozói várrákkozások és magatartások területi differenciálódása, 1997 [Regional differences of entrepreneurial expectations and behaviours, 1997], research programme “Versenyben a világgal” [Competing with the world], Budapest University of Economics, Department of Business Administration, discussion paper, Vol. 10, January 1997.

12 On the re-establishment of traditional regional disparities, see: J. Nemes-Nagy, Regionális fejlesztési alternatívák hatása a magyarországi régiótípusok fejlődésére [Effects of regional policy alternatives on the development of Hungarian regions], background paper for establishment of governmental regional policy, Budapest: Ministry of Environment and Regional
Table 3  The significance of Budapest in the spatial structure of Hungary (percent)

<table>
<thead>
<tr>
<th>Activity</th>
<th>Budapest</th>
<th>Rest of country</th>
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<tbody>
<tr>
<td>Population, 1995</td>
<td>18.7</td>
<td>81.3</td>
</tr>
<tr>
<td>No. of employees in public administration, 1995</td>
<td>60.8</td>
<td>39.2</td>
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<tr>
<td>No. of employees in financial mediation, real estate, and business activities, 1995</td>
<td>49.7</td>
<td>50.3</td>
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<tr>
<td>No. of industrial employees, 1995</td>
<td>16.6</td>
<td>83.4</td>
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<tr>
<td>No. of employees in the third sector</td>
<td>37.7</td>
<td>62.3</td>
</tr>
<tr>
<td>Registered unemployed, 1995</td>
<td>11.0</td>
<td>89.0</td>
</tr>
<tr>
<td>No. of students in higher education</td>
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<tr>
<td>GDP, 1994</td>
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<td>Investment</td>
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<td>Export income, 1993</td>
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<td>46.5</td>
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<tr>
<td>Corporations with legal personality, 1989</td>
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<td>59.4</td>
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<tr>
<td>Corporations with legal personality, 1995</td>
<td>44.9</td>
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<tr>
<td>No. of joint ventures, 1993</td>
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<td>Share of foreign capital, 1995</td>
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<td>43.5</td>
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<td>Expenditure of R&amp;D institutions, 1992</td>
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<tr>
<td>Expenditure on R&amp;D in higher education, 1993</td>
<td>48.6</td>
<td>51.4</td>
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</table>

its agglomeration have benefited most from transition (see table 3). A large number of small industrial enterprises were set up in the capital, compensating for the recession in large-scale, state-owned industry. Over 60% of all foreign investment has come to Budapest. Almost all new banks, insurance companies, international financial consulting firms, the entire stock exchange, and the majority of international transactions are concentrated in this region.

One of the preconditions of Hungary’s accession to the European Union and getting support from the “Structural Funds” of the EU is the creation of macro regions (the “NUTS-II” level, in EU terminology). This level is considered optimal for planning and programming because it constitutes an intermediary function between the state and local authorities and organisations, and because it is better suited for strategic thinking. It is the government’s intention that future development concepts will be formulated using this level of region. The Act on Regional Development and Physical Planning leaves the creation of macro

Table 4  Selected indicators of macro regions (1994)

<table>
<thead>
<tr>
<th>Macro region of</th>
<th>Size</th>
<th>Population</th>
<th>Population</th>
<th>GDP*</th>
<th>GDP/ capita</th>
<th>Level</th>
</tr>
</thead>
<tbody>
<tr>
<td>Southern Transdanubia</td>
<td>18 011</td>
<td>1 306</td>
<td>12.7</td>
<td>11.0</td>
<td>86.7</td>
<td>53.3</td>
</tr>
<tr>
<td>Northern Transdanubia</td>
<td>18 662</td>
<td>1 812</td>
<td>17.6</td>
<td>16.5</td>
<td>93.4</td>
<td>56.5</td>
</tr>
<tr>
<td>Southern Plain</td>
<td>18 256</td>
<td>1 377</td>
<td>13.4</td>
<td>11.2</td>
<td>93.7</td>
<td>56.0</td>
</tr>
<tr>
<td>Northern Plain</td>
<td>17 755</td>
<td>1 529</td>
<td>14.9</td>
<td>11.0</td>
<td>73.2</td>
<td>60.0</td>
</tr>
<tr>
<td>Northern Hungary</td>
<td>13 428</td>
<td>1 294</td>
<td>12.6</td>
<td>8.7</td>
<td>68.7</td>
<td>50.6</td>
</tr>
<tr>
<td>Central Region</td>
<td>6 918</td>
<td>2 961</td>
<td>28.8</td>
<td>41.6</td>
<td>151.8</td>
<td>79.3</td>
</tr>
<tr>
<td>Hungary</td>
<td>93 030</td>
<td>10 279</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>62.7</td>
</tr>
</tbody>
</table>

* Percentage of national GDP.  ** National GDP/capita = 100.

Source: Országos Területfejlesztési Koncepció [National Regional Development Concept], Pécs: Regional Research Centre, Hungarian Academy of Science, 1996.

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regions consisting of several counties to the voluntary decision of the counties (except for the capital and its agglomeration). However, regions for statistical purposes will soon be created. Independently of this requirement, research concerning larger regions has been conducted in Hungary for several years. In the latest version of the National Concept of Regional Development, the following definition of six macro regions is recommended: Northern Great Plain, Southern Great Plain, Northern Hungary, Northern Transdanubia, Southern Transdanubia, and the Central Hungarian Region. Table 4 shows substantial differences in GDP/capita figures at the level of macro regions. The basic characteristics of the economic transition at the level of these macro regions are outlined below.

**The Southern Great Plain and the Northern Great Plain.** The Great Plain is the most homogeneous territory of Hungary. Both regions of the Great Plain were primarily affected by the collapse of Eastern markets, the agricultural crisis, and the sharp decline of industrial production. Foreign markets for agricultural products have shrunk, and the rate of employment has significantly decreased. Foreign investments are very limited in this area.

**Northern Hungary.** This region includes a number of industrial crisis areas, but there are also underdeveloped rural territories, where the sharp decline in agricultural production has led to grave unemployment and increasing social tension.

**Northern Transdanubia.** This region is distinguished from Northern Hungary by its entrepreneurial tradition, despite the fact that there are many similar features in their economic structures. Many centres of the mining, metallurgical, chemical and military industries have fallen victim to sharp decline, but this trend has been partly counterbalanced by foreign investment and developing local enterprises.

**Southern Transdanubia.** The southern part of Transdanubia is the most diversified region of Hungary. Local economic crises occur with major demands to rehabilitate the environment (e.g. in the Pécs-Komló sub-region after the closure of uranium and coal mines).

**The Central Hungarian Region and the agglomeration Budapest.** This region comprises Budapest and Pest county. The most remarkable tendency of this macro region is the rapidly increasing importance of Budapest in the economic potential of the country. Here services, especially business services, play a dominant role in the current economic and employment restructuring process. Budapest has historical and comparative advantages over all settlements and regions in this field.

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13 "Sub-regions" refers to the NUTS-IV level, in EU statistical terms.
Regional differences at the level of sub-regions

The Budapest-countryside, east-west, and north-south division of spatial differences conceals the fact that there are regions severely hit by economic restructuring also in the western part of the country, and that one can find some prosperous regions even in the eastern part of Hungary. The importance of spatial processes at the level of sub-regions has increased substantially in the last years. This tendency corresponds in part to general trends in the world economy, but can also be seen as a special feature of economic transition. After abolishing the former, over-centralised system, the importance of local preconditions for development has considerably increased. Since the abolition of the sub-regional level (járás) in 1994, there are no longer sub-regional administrative units in Hungary. Nevertheless, for practical purposes, there remain two classifications of sub-regions – areas for statistical purposes and Labour Office Areas (LOAs).

A system of 138 sub-regions as groupings for statistical purposes was introduced by the Hungarian Central Statistical Office (CSO) on 1 January 1994. These sub-regions do not cross county boundaries, and every settlement belongs to a sub-region. Sub-region areas were demarcated to form relatively homogeneous territorial units. LOAs (shown in the annex, map 3) are the service areas of the Local Labour Offices of the County Labour Centres. Their number increased from 170 to 185 over recent years. They are demarcated to correspond more or less to local labour markets. Some regional data regarding unemployment registers are available only at this sub-regional level.

Unfortunately, Hungarian statistics do not offer GDP data on the economy at the sub-regional level. Nevertheless, the CSO and the Ministry of Environment and Regional Policy have developed a methodology to compare the economic and social performance of sub-regions. A multivariate mathematical process was used to measure the state of economic and social development. Calculations were carried out by the CSO on the basis of a range of indicators chosen by experts on regional statistics, regional geography, and regional development. Based on indicators of local infrastructure, the local economy, and local labour markets, the following problem areas were identified (for the geographical distribution of the problem groups, see annex, maps 4–7):

**Underdeveloped areas.** Principle component analysis was performed on 15 regional variables. The first factor, having a strong correlation with indicators of economic development (employment in the service sector, tax base personal income, number of cars per capita, number of telephone lines per capita), was selected as the indicator of economic devel-
### Table 5  Indicators of problem regions (as of 1 January 1995)

<table>
<thead>
<tr>
<th>Type of Settle-sub-region</th>
<th>No. of regions</th>
<th>Population</th>
<th>Number of settlements (%)</th>
<th>Number Regions</th>
<th>Population</th>
</tr>
</thead>
<tbody>
<tr>
<td>Underdeveloped</td>
<td>51</td>
<td>1 827 958</td>
<td>940</td>
<td>36.9</td>
<td>17.8</td>
</tr>
<tr>
<td>Industrial crisis</td>
<td>17</td>
<td>624 470</td>
<td>326</td>
<td>12.3</td>
<td>6.1</td>
</tr>
<tr>
<td>Rural</td>
<td>41</td>
<td>1 390 094</td>
<td>941</td>
<td>29.7</td>
<td>13.6</td>
</tr>
<tr>
<td>High long-term unemployment</td>
<td>42</td>
<td>1 774 921</td>
<td>1 025</td>
<td>30.4</td>
<td>17.3</td>
</tr>
</tbody>
</table>

**Accumulations**

   6 189 862 140 4.3 1.8 4.5
2. Underdev. + Indust. crisis + Rural  
   44 910 20 0.7 0.7 0.6
   2 103 498 33 1.4 1.0 1.1
   18 648 635 411 13.0 6.3 13.1
5. Underdeveloped + Industrial crisis  
   2 7 8252 25 1.4 0.7 0.8
6. Underdeveloped + Rural  
   7 245 429 120 5.1 2.4 3.8
7. Underdeveloped + High unempl.  
   5 159 041 100 3.6 1.5 3.2
8. Industrial crisis + Rural  
   1 11 708 14 0.7 0.1 0.4
   2 83 659 58 1.4 0.8 1.8
10. Rural + High unempl.  
    2 51 114 87 1.4 0.5 2.1

**Non-problem sub-regions**

<p>| | | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-problem sub-regions</td>
<td>66 7421 109</td>
<td>1625</td>
<td>47.8</td>
<td>72.4</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
development of sub-regions. Fifty-one sub-regions with factor scores less than 75% of the national average were deemed to be underdeveloped regions, and 17.8% of the country’s population lived in these regions as of 1 January 1995.

**Industrial crisis regions.** Adapting EU guidelines for identifying regions hit by large-scale industrial restructuring, the following criteria were taken into account: share of industry in total employment in 1994; decline in the above proportion between 1990 and 1994; and the level of registered unemployment. Regions were considered to be experiencing an industrial crisis if the last two (or all three) variables were above the national average. In 1995, 17 sub-regions corresponded to these conditions.

**Areas of persistent high unemployment.** Selection was based on the percentage of the long-term unemployed in June of the years 1992–1994. A region was considered to have persistent high unemployment if the proportion of the long-term unemployed in each year was equal to or greater than 1.25 times the national average. In 1995, 42 sub-regions fell into this category, with 6.1% of the population living in these areas.

**Rural territories.** Forty-one sub-regions qualified as rural territories (including 51 towns and 890 villages), representing 13.5% of the total population of the country. The rate of unemployment and the percentage of the working population employed in agriculture is significantly higher in rural areas than the national average, and the rate of outbound migration from these areas is the highest of all sub-regional types. Infrastructure is in a poor state, even when compared to other less developed regions.

**Regions with cumulative crises.** More than half of all sub-regions were demarcated as problem regions according to one or more selection criteria. Some indicators of problem regions and combinations of the selection criteria can be seen in table 5.

Several attempts have been made to identify the most important spatial dimensions of transition at the sub-regional level. For example, József Nemes-Nagy has analysed regional variables of entrepreneurial activity, personal income taxation, unemployment, and foreign capital investment. Three dimensions of economic transition were identified through factor analysis: (a) the dimension of employment relations (level of personal income, ratio of tax-payers, unemployment rate); (b) the dimension of entrepreneurial relations (enterprise density, ratio of self-employment, ratio of employees having second jobs); and (c) the dimension of foreign capital relations (dominance of foreign capital and joint ventures in the regions).

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Based on the factor scores, the author classified the situation of each sub-region as relatively advantageous or relatively backward in the dimensions of spatial processes. Similar analysis has been performed to identify determinants of regional differences in unemployment, as discussed in the following section.

2.2. The regional differences of unemployment

The emergence of open unemployment in the first years of transition was accompanied by increasing regional differences in the labour market. Traditional regional inequalities received new dimensions with unemployment. Regional differences increased not only with regard to the rate of unemployment – supply and demand for labour was also mismatched to varying degrees. Since 1993, regional differences in unemployment in Hungary have shown a slight decrease. However, this has not meant a decrease in the regional differences of employment tensions. In the hardest-hit regions, the decrease in unemployment rates has been the result not of more people finding work, but of a more rapid, forced exit from the labour market and an increasing proportion of inactive persons. The available evidence suggests that high-unemployment regions were more severely exposed to job destruction during the “transformational crisis” and also lagged behind in terms of job creation. The difference in the growth of the small firm sector was particularly large.

2.2.1. The regional incidence of unemployment

From the beginning of the transition period until the first quarter of 1993, in parallel with the increase in unemployment, differences in rates of unemployment between regions also increased in Hungary. In March 1993, the average registered unemployment rate varied between a low of 6.6% in Budapest and 8% in Győr-Moson-Sopron county, to a high of 22.3% in Szabolcs-Szatmár-Bereg county.

16 T. Laky (ed.), Main Trends in Labour Demand and Supply, Budapest: Labour Research Institute, April 1996.
17 LOAs are the service areas of Labour Offices under the County Labour Centres. Organisational changes brought the number of employment regions from 170 to 190 during the years 1990–1995. At the time of this analysis, the regions within Budapest were combined, and the capital is now regarded as one employment region.
Regional differences in unemployment usually are examined by regional indicators aggregated at the level of counties, macro regions, or given types of settlements. These aggregates, however, conceal (or fail to reveal) existing differences between different types of local labour markets. Considerably larger regional differences can be observed if regional unemployment ratios are examined not at the county level but at the level of LOAs, which more adequately reflect local labour markets. In March 1993, the difference between the top and bottom quartiles of unemployment rates at the LOA level was more than 50% higher than that between the top and bottom quartiles at the county level. The standard deviation of the unemployment rates of the 170 LOAs amounted to 5.04%, with 3.56 between-county vari-

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Figure 1 Indicators of LOA-level unemployment rate differentials (Budapest excluded)

Source: Regional Data Base, Institute of Economics, Hungarian Academy of Science

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ance and 3.56 within-county variance. The county-level classification could capture only about half of the LOA-level variation in unemployment rates. Based on the assumptions above, it is better to choose the LOA as the unit of observation, rather than the standard NUTS-II level classification used by many researchers.  

2.2.2. Time path of regional differences of unemployment rates

The average rate of unemployment in the lowest quartile of the 170 LOAs peaked at 8% in March 1993. In the upper quartile, in contrast, the average rate approached 25% and failed to drop below 20% by the middle of 1995. As shown in figure 1, the Evans or Jackman-Roper Mismatch Index measuring the degree of regional mismatch in unemployment and vacancy rates sharply increased until the end of 1992, but fell from 2.0 to 1.8 by 1994. Moreover, analysis shows that the ranking of LOAs in terms of unemployment has changed little over recent years. After 1993, with the rate of unemployment decreasing, regional differences between unemployment rates also decreased, along with a declining trend in the value of the Mismatch Index. Nevertheless, one should not conclude from this decrease that regional differences in employment tensions also have been eased. Just as the fall in the unemployment rate does not necessarily mean a decrease in employment tensions, neither does a decrease in regional differences in unemployment rates necessarily imply a reduction in regional differences in employment tensions.

The measured rate of unemployment is influenced by the costs and benefits of looking for a job: in regions with a low demand for labour, workers may give up the job search entirely and may be treated in surveys as inactive. Naturally, the rate, and rate of change, of non-participation is correlated with the rate of unemployment. LOA-level analysis shows that in the first quartile of unemployment in 1993 (Q1=the quartile of lowest

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18 The index is defined as \( I = \sum L_i [(U_i - V_i) - (U - V)] \), where \( U \) and \( V \) are unemployment and vacancy rates, \( L \) is the share of a region in labour force and \( i \) stands for regions. See: G. Evans, *A Cyclically Adjusted Index of Structural Imbalances* (mimeo), London School of Economics, 1995; or R. Jackman and S. Roper, "Structural Unemployment", *Oxford Bulletin of Economics and Statistics*, Vol. 49, No. 1, 1995.


unemployment), the rate of inactivity was 45% in 1993, and rose by less than 1% by the end of 1994. In the fourth quartile (Q4), the rate was 46%, and rose by 2.5% in the same period.

2.2.3. Determinants of regional unemployment rate differentials

In a collection of articles prepared by the World Bank in 1994 on the labour markets of Central and Eastern European countries, Jackman and Rutkowski trace unemployment discrepancies of transitional countries to the higher regional concentration of industrial plants established in the pre-transition period. In Hungary, regional analyses challenge this explanation. Fazekas was able to show through analysis of LOA regions how unemployment rate differentials can generally be traced to two key factors, namely the differences in regional entrepreneurial capacity and industrial capacity at the beginning of transition.

Factor 1: Entrepreneurial capacity. This factor quantifies the extent to which infrastructure and social conditions were in place in the sub-regions in 1990–1991, at the starting point of the transition. A high positive score indicates a region with higher-than-average values in the following indicators: ratio of self-employed persons; number of cars per thousand inhabitants; per capita personal income tax; ratio of households connected to the water supply network; number of telephones per thousand inhabitants; level of education; positive balance of migration; the average activity rate of inhabitants; and a lower (or below the national average) ratio of people employed in agriculture.

Factor 2: Industrial capacity. This factor is used to characterise the dominance of state-owned, capital-intensive industries in the local economy and on the local labour market in the region. This factor has high positive scores in regions where: the ratio of those employed in industrial companies with more than 50 employees was higher than average; the per capita capital stock of industrial companies was higher than average; and the ratio of those employed in agriculture was lower than average.

Multivariate regression equations were calculated with regression factor values as independent variables and with regional unemployment rates as dependent variables giving very good estimations of the regional unemployment rates. Four types of regions were classified by the combination of the two factors: (a) entrepreneurial / industrial; (b) entrepreneurial / nonindustrial; (c) nonentrepreneurial / industrial; and (d) non-entrepreneurial / nonindustrial (see annex, map 8). We can briefly summarise the geographic distribution of these sub-region types. First, industrial regions with relatively good entrepreneurial
capacities were situated mainly along the western border of the country, at the centre of the Transdanubian region, and around the largest cities of the country. Second, non-industrial regions with relatively good entrepreneurial capacities were located primarily around Lake Balaton, Budapest, and in the southern part of the Hungarian Plain. Third, industrial regions with relatively poor entrepreneurial capacities are often situated along the north-eastern border of the country. Finally, non-industrial sub-regions with relatively poor entrepreneurial capacities are generally located in the central and eastern parts of the Great Hungarian Plain. The analysis indicates that the dominance of state-run large-scale industry is by itself in a negative relationship with the level of unemployment emerging in a given region. The dominance of large state industry has led to higher unemployment only in those regions where this dominance was coupled with less favourable entrepreneurial capacities. This means that job and enterprise destruction seems to be less important than job creation in determining regional unemployment rates.

In a recent study identifying the most important reasons for regional unemployment differences, correlations between unemployment and the nature of the local economy were examined in four steps. First, a large number of indicators were considered to cover physical and human infrastructure (e.g., water, sewage, gas and phone supply, schooling levels); industrial structure; wealth (e.g., cars, tax base, land quality); distance from the Austrian border or from Budapest; ethnic characteristics; and other factors. Second, the correlation between these variables and the rate of unemployment was explored. Third, the variables found relevant were factor-analysed in order to achieve a relatively small set of uncorrelated dimensions. Finally, local unemployment rates were regressed on the factors to assess their relative importance.

A common experience with various attempts along these lines (but using different sets of variables or factor techniques) is that unemployment rates have little to do with either industrialisation or with the often-used Herfindahl index, which measures the degree of diversification of a region's economy. Although the collapse of large industrial firms did generate high unemployment in some regions, especially in single-employer towns (such as in the infamous case of Ózd), this and similar cases are more the exception than the rule. Unemployment is typically high in agricultural regions with poor infrastructure, low educational levels, no tourism, poorly developed services and trade, with large Roma

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(gypsy) communities, and located far from the affluent centres of the country.

Four factors are most significant, which we shall designate F1–F4. F1 combines indicators of infrastructure and education. F2 includes indicators of tourism, trade, services, and self-employment. F3 captures the wealth (e.g., cars, tax base, land quality) of the region and the share of Roma in the local population. F4 reflects distance from Budapest and the Austrian border. As most of the variables in the set are either constant over time or have changed little (in relative terms) during the transition, one may try to study their effect on unemployment over time. The explanatory power of the model rises quickly to a level of a $R^2 = 0.6–0.7$ as we move from 1990 to 1995 (and it is very stable after 1992). All factors are significant at least from mid-1992 onwards. F1, F3, and F4 have similar standardised parameters, while F2 has a smaller but significant effect.

In interpreting this or similar models, the researcher obviously faces a “chicken and egg” problem: the causality between the variables is not entirely clear, and the search for an explanation may take us very far from recent labour market issues. The message for research and policy, however, is not as uncertain. The long-lasting, stable differences of unemployment or non-employment rates can be traced back to factors related to historical legacy, economic development, and hard-to-change endowments rather than to incidents occurring in the first five years of transition. Regional policy, as defined and practised in Hungary at present, has and probably will have little impact on these differences.

### 2.2.4. Time path of the determinants of regional unemployment rate differentials

A preliminary overview of labour market flows at the level of sub-regions seems to confirm the strong relation between regional unemployment rates and labour market flows.\(^\text{23}\) High regional unemployment rates were fed by high inflows of unemployed persons, as well as low outflows. They were further increased by large flows from inactivity to unemployment, but not particularly high flows from unemployment to inactivity after 1993. A rough-and-ready conclusion from these data might be that low-unemployment regions had less job destruction and more job creation, translating to lower unemployment inflows and higher outflows. However, such a conclusion might be too strong, prior to

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\(^\text{23}\) See Fazekas and Köllő, op. cit.
### Table 6  Employment in continuously operating firms by region*

<table>
<thead>
<tr>
<th>Quartiles of 170 regions by rate of unemployment, March 1993**</th>
<th>Lowest (Q1)</th>
<th>Second (Q2)</th>
<th>Third (Q3)</th>
<th>Upper (Q4)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total employment 1992/1989 .64</td>
<td>.63</td>
<td>.59</td>
<td></td>
<td></td>
</tr>
<tr>
<td>of which:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>in shrinking firms (ΔL&lt;0) .54</td>
<td>.57</td>
<td>.56</td>
<td></td>
<td></td>
</tr>
<tr>
<td>in growing firms (ΔL&gt;0) 1.60 1.53</td>
<td>1.30</td>
<td>1.27</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Proportion of growing firms in survey (%) 15.3 14.7 11.3 12.0</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employment in expanding firms (base year, % of total employment)</td>
<td>9.8</td>
<td>8.1</td>
<td>4.9</td>
<td>4.2</td>
</tr>
<tr>
<td>Net hiring/net firing (%): (\frac{\sum (\Delta L</td>
<td>L&gt;0)}{\sum (\Delta L</td>
<td>L&lt;0)}) 16.9 6.1 3.1 4.6</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total employment 1994/1992 .76</td>
<td>.61</td>
<td>.60</td>
<td></td>
<td></td>
</tr>
<tr>
<td>of which:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>in shrinking firms (ΔL&lt;0) .64</td>
<td>.53</td>
<td>.52</td>
<td></td>
<td></td>
</tr>
<tr>
<td>in growing firms (ΔL&gt;0) 1.67 1.52</td>
<td>1.45</td>
<td>1.44</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Proportion of growing firms in survey (%) 17.4 16.3 18.6 13.4</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employment in expanding firms (base year, % of total employment)</td>
<td>11.8</td>
<td>8.8</td>
<td>8.8</td>
<td>5.9</td>
</tr>
<tr>
<td>Net hiring/net firing (%): (\frac{\sum (\Delta L</td>
<td>L&gt;0)}{\sum (\Delta L</td>
<td>L&lt;0)}) 25.3 9.3 8.9 6.9</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* The employment figures given are combined employment in the sample of surveyed firms in a region in the last year of survey (t+3), divided by the corresponding value in the first year of the survey (t).

** Budapest excluded.

taking a closer look at employment dynamics. It may well be the case that low-unemployment regions had more job destruction but more job creation too, resulting in more job-to-job flows and lower unemployment inflows. The fact that these different scenarios are observationally equivalent (in the Labour Force Survey) calls for a direct study of job creation and job destruction. Changes of employment are generated by the events of plant closures, business start-ups, and hiring and firing by continuously operating firms. The available survey data on continuously operating firms (active from pre-transition until present) suggest that high-unemployment regions had: (a) a higher share of firms with shrinking employment; (b) more job destruction in these firms; (c) a lower share of expanding firms; and (d) less job creation in these firms. The combined result of these differences was a considerable gap in terms of net employment decline and in the relation of net hiring to net firing. These data suggest that the job destruction and job creation sides were roughly equally important in generating the gap between regions (see table 6).

A closer look at orders of magnitude, however, calls attention to the fact that the experience of continuously operating firms cannot satisfactorily explain the differences in unemployment rates. If unemployment had been generated by net hiring and net firing observed in the samples discussed here, unemployment levels ought to be much higher. In the lowest unemployment quartile (Q1), for instance, continuously operating firms reduced employment by a net 35% in 1989–1992, but the unemployment rate did not exceed 10% at the end of 1992. And, in the highest unemployment quartile (Q4), the rate of unemployment at the end of 1992 was “only” 24%, compared to a 42% net employment decline observed in 1989–1992 by the Wage Survey Firm Panel. It is clear that business start-ups may have had an important role in partially offsetting the effects of job destruction, especially in low-unemployment regions where the gap between the observed fall of employment (in continuously operating firms) and unemployment was particularly wide.

Assessing the number of closed or newly established firms in different regions is even more difficult than acquiring information on continuously operating enterprises. We can take recourse in some proxies, possibly correlating with plant closures or business start-ups. On the job-destruction side, we may try to look at the incidence of bankruptcies or similar indicators of business failure. On the job-creation side, the number of businesses over time roughly indicates what we are interested in. The available surveys suggest a slightly higher share of firms under bankruptcy procedure in high-unemployment regions in 1993. The proportion of firms losing more than half of their staff within a year was also higher in 1993. The differences seem to disappear in 1994, however (see table 7).
### Table 7  Bankrupt and collapsing firms in the Forecast Survey

<table>
<thead>
<tr>
<th></th>
<th>1993</th>
<th>1994</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Firms under bankruptcy procedure (%)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Q1</td>
<td>3.4</td>
<td>2.7</td>
</tr>
<tr>
<td>Q2</td>
<td>4.4</td>
<td>3.9</td>
</tr>
<tr>
<td>Q3</td>
<td>4.9</td>
<td>3.0</td>
</tr>
<tr>
<td>Q4</td>
<td>5.6</td>
<td>3.7</td>
</tr>
<tr>
<td><strong>Firms losing more than 50% of their staff in 12 months (% of all firms)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Q1</td>
<td>4.2</td>
<td>2.8</td>
</tr>
<tr>
<td>Q2</td>
<td>5.3</td>
<td>4.0</td>
</tr>
<tr>
<td>Q3</td>
<td>6.3</td>
<td>3.3</td>
</tr>
<tr>
<td>Q4</td>
<td>8.0</td>
<td>2.9</td>
</tr>
</tbody>
</table>

(Number of firms) (4 178) (4 517)


### Table 8  Changes of the number of self-employed and businesses with legal personality per 1000 inhabitants

<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td><strong>Increase of number of self-employed per 1000 inhabitants</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Q1</td>
<td>8.6</td>
<td>1.6</td>
</tr>
<tr>
<td>Q2</td>
<td>7.4</td>
<td>1.5</td>
</tr>
<tr>
<td>Q3</td>
<td>3.5</td>
<td>1.1</td>
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<tr>
<td>Q4</td>
<td>2.4</td>
<td>0.9</td>
</tr>
<tr>
<td>Q1/Q4</td>
<td>3.5</td>
<td>1.8</td>
</tr>
<tr>
<td><strong>Increase of number of business establishments</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Q1</td>
<td>3.5</td>
<td>3.3</td>
</tr>
<tr>
<td>Q2</td>
<td>2.7</td>
<td>2.7</td>
</tr>
<tr>
<td>Q3</td>
<td>1.9</td>
<td>1.4</td>
</tr>
<tr>
<td>Q4</td>
<td>1.5</td>
<td>0.9</td>
</tr>
<tr>
<td>Q1/Q4</td>
<td>2.3</td>
<td>3.7</td>
</tr>
</tbody>
</table>
The net growth of new businesses was considerably faster in low-unemployment regions. The number of business establishments with legal personality per 1000 inhabitants grew by 3.5 in 1993 and 3.3 in 1994 in Q1. The respective figures for Q4 were 1.5 and 0.9. The number of self-employed per 1000 inhabitants grew by 8.6 in 1990–1992 and 1.6 in 1992–1994 in Q1, but only by 2.4 and 0.9 in Q4, as shown in table 8.

3. REGIONAL DEVELOPMENT POLICY IN HUNGARY, 1990–1996

Regional policy in Hungary until now has been rather centralised, and in the majority of cases has meant financing individual development projects in backward areas. Because of the lack of effective mid-level local government, no one has taken the responsibility to work out a strategic background for regional development. Due to the large-scale regional differences and increasing tensions on the labour market, regional considerations have an important role in the employment policy of the government. The legal bases of regional and employment policies are given by the Act on Regional Development and Physical Planning and by the Employment Act. Both laws determine general responsibilities and powers of central and local actors, basic institutions involved, and measures of regional and employment policies.

In the previous section, we presented major challenges that employment policy and regional development policy have had to face over the last years. Following the first shock of transition — including rapidly rising unemployment, increasing regional differences, and spreading local employment crises — the level of unemployment and regional differences in unemployment have stabilised at a high level. Especially acute unemployment crises were witnessed in a number of sub-regions. Unfortunately, the number of options for labour market and regional development policies were reduced dramatically in this worsening situation. One could mention three factors which hindered adequate answers on the part of central government: lack of time, lack of funds, and lack of know-how regarding local employment development.

Parallel with decreasing GDP in 1990–1992, central budgetary revenues fell short of expected levels — primarily due to a rapid decrease of overall economic activity. However, the need for available funding rose equally fast. There was a particularly speedy increase in the costs of handling unemployment and managing employment crisis situations. In 1990, passive and active employment policy measures and the administration of the labour market absorbed 0.6% of GDP. This rose to 2.9% in 1992 and 1993, and then decreased to 2.1% in 1993–1995. The major part of the expenditure on overall employment policy, however, was spent on unem-
ployment benefits and the operations of the labour market administration. Although the proportion of funds spent to cover the cost of active employment measures increased over the years, expenditures on active employment measures per one registered unemployed person dropped by more than 67% in nominal forint terms between 1990 and 1993.

In the case of regional development policy, a geographically allocated subsidy system was gaining ground over an industry-based system, reaching HUF 6 billion ($75.2m) from HUF 1.5 billion ($20.1m) between 1991 and 1992. Public spending in regions affected by the community structural policy (central and local budgets, separated funds, tax preferences) totalled about 11.5% of GDP in 1993–1995. Together with other resources (eg from private, PHARE, or EIB funds) development expenditure was nearly 14.6% of GDP during this period. This ratio may be significant when compared with that in the previous period, but it lagged behind the urgent demand for crisis management.

Changes occurred so rapidly, and there was such an urgent need for day-to-day intervention in crisis regions, that the government had no time to formulate a long-term strategy for labour market or regional development policies. Nevertheless, significant alterations in both fields took place over the years. First of all, there was a shift in decision making from central bodies towards local organisations. Also, a system of integrated policy measures gained ground at the expense of scattered, individual actions. This process was not, however, guided by a vision or a strategic plan. Decision makers and practitioners did not possess well-based knowledge in crisis management or in local employment development. Changes have therefore been primarily the result of a trial-and-error learning process, in which the adaptation of foreign (EU) experiences has played a decisive role.

3.1. Regional development policy answers to the regional challenge of transition

The new Act on Regional Development and Physical Planning was passed by the Hungarian parliament in March 1996, in the sixth year of transition.\footnote{Act XXI of 5 April 1996, adopted by parliament on 19 March 1996.} The main cause of the delay was the lack of a clear government strategy concerning the basic aims, priorities and tools of regional development in the

\footnote{The Economic Cabinet is a body appointed by the prime minister, consisting of ministers and state secretaries of relevant ministries, and having the responsibility of preparing proposals for the government in the most important issues of economic policy.}
transitional period. Meanwhile, there had been substantial changes in regional policy over the preceding years: eg a shift from acute crisis management intervention towards long-range development strategies, a move from centralised decision-making and financing systems towards decentralised procedures, and the increasing adaptation to the requirements of EU regional development policy to replace the system-specific institutions and practices of regional development under the planned economy.


Early in 1991, the Economic Cabinet established a Regional Working Team with the aim of devising a proposal for a concept and instruments for handling regional crises arising from the post-socialist transition. Besides preparing the concept, the Regional Working Team had the task of coordinating the regional crisis management efforts of various ministries. The Ministry of Environment and Regional Policy drew up the concept of regional development on a national level, elaborating national priorities, and turning these into guidelines for decentralised regional development programmes. The Ministry of Internal Affairs coordinated government duties with respect to the functioning of local governments. The Ministry of Industry and Trade prepared concepts as they affected industrial crisis regions, and the Ministry of Agriculture played a similar role in the development of various agricultural regions. The Ministry of Labour, with the active and passive tools of employment policy, and the Ministry of Social Welfare, through the operation of social crisis management programmes, also played a part in the administration of crisis regions. The Ministry of International Economic Relations assisted in the issues of economic development and crisis management by actively attracting investment.

After lengthy preparations, the committee submitted a strategic paper first to the National Labour Market Board, then to the National Council for the Reconciliation of Interests. The government eventually accepted the paper in May 1992. It summarised the tasks relating to the development of regional crisis management measures in three main points: (a) existing measures should be concentrated towards regions in the deepest crises; (b) the government should provide support for the elaboration and implementation of complex regional crisis management and development programmes initiated by the social and economic actors of the

Regional Development and Employment Policy

regions hit by the crisis; and (c) the government should establish a state-operated organisational and institutional system to support regional crisis management.

On the basis of these concepts concerning the management of regional crises, the government decided on regional development subsidies to support economic development and job creation in handicapped regions. Until 1995, the main instrument of regional policy in Hungary was the support provided by the government through the *Regional Development Fund* (RDF) to regions experiencing structural difficulties. The RDF provided grant assistance on a co-financing basis to the public and private sectors for individual projects, mainly for infrastructure and to assist investments which can be expected to generate jobs in regions which were suffering structural and development handicaps or were experiencing particularly high levels of unemployment. Areas which qualified under both headings were labelled *crisis regions*. For these regions, a higher rate of assistance was applied, and additional measures were taken as well. In backward regions, the RDF was accessible for projects intended to accomplish the following: promote the re-utilisation of agricultural resources; use land currently under agricultural cultivation for non-agricultural enterprises; establish businesses for farmers under 35 years of age; develop village tourism; provide services in social and educational investments; establish and developed new SMEs; or purchase machinery for public utility works.

Before 1996, when parliament passed the new Act on Regional Development, applications for grants for each local project were submitted centrally for assessment by the State Development Institute, a central government agency linked to the Ministry of Finance and responsible for

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27 *Borsod county* was characterised by a number of single-industry towns – such as Ózd – depending on iron and steel production, mining, chemicals, or other heavy industries. Unemployment in these towns exceeded 30%. At the same time, the county seat Miskolc is Hungary’s second largest city, and is based on a relatively diverse economy. Borsod county as a whole is dominated by backward rural areas. *Szabolcs-Szatmár-Bereg county* is an underdeveloped region on the periphery of the Great Hungarian Plain, bordering Ukraine, Romania, and Slovakia. Agricultural production is predominant, mostly fruits and cereals. There is relatively little heavy industry in the county. Instead, its economy has a concentration of small businesses in light industry. In 1992, unemployment in Szabolcs county was around 23%, reaching as much as 40% in certain areas.
the management of all state investment contributions, prior to decision by an Inter-Ministerial Committee, chaired by the Ministry of Environment and Regional Policy with the participation of relevant ministries (including the Ministries of Agriculture, Industry, Transport, and Finance). The RDF amounted to HUF 1.5 billion in 1991, and to about HUF 5 billion in 1992. In 1991 it helped create 3159 jobs; in 1992 this figure rose to 7338. While in 1991, 52% of new jobs were created in the three counties worst hit by unemployment (72% in 1992), job creation investments financed from the RDF had no significant impact on the employment rate of the regions in question.

As early as in 1991, the government was put under significant pressure from areas worst hit by growing unemployment to provide some special type of crisis management in the regions in question. The government devoted “special sessions” to the negotiation of reports concerning the latest state of affairs in a given region, and issued decrees on measures to be taken. The government decrees triggered specific projects in the framework of an action plan with the objective of developing the areas in question, and set separate amounts from the assistance fund for regional development and job creation in order to finance the projects. In 1992, two counties in the northeastern region of Hungary were officially considered crisis regions. The counties of Borsod (with a concentration of heavy industries and high levels of unemployment) and Szabolcs-Szatmár-Bereg (with an underdeveloped economy dominated by agricultural production) received some 66% of RDF funds. In 1991, 77% of all infrastructure-related funds of the RDF were spent on projects in the northeast (Borsod 4% and Szabolcs 73%).

Regional development policy in 1990–1992, primarily restricted to managing regional crises, had the severe drawback of pushing long-term strategic considerations of regional development into the background. In 1992, the government decided on a new law on regional development, arguing that the change of regime – ie the pluralisation of political power, the introduction of the local governing system, the transformation of ownership conditions, and the new system of conditions and requirements of a social market economy – all called for new regional policy and regional development mechanisms. Moreover, there was no valid norm that could ensure the build-up of a homogeneous state-level regional development policy and also build the still-lacking institutions of regional development policy, while guaranteeing the resources that these require. Apart from the lack of legislation, the following problems were identified: deficient statutory provisions; authorities that are not sufficiently straightforward; excessive fragmentation of legal and political responsibility; conflicting
interests among local governments; lack of direction over regional development; lack of basic conditions of coordination on a central as well as regional level; excessive time taken to shift from the former principle of central redistribution.

The rapid spread of local crises encouraged the government to change its short-term crisis management policy. A submission by the Ministry of Environment and Regional Policy to the government in December 1992 sums up the new aspects of regional policy in three main points. First, the government’s short-term efforts and tools were to be concentrated on small regions struggling with on-going structural difficulties and suffering from recession. In this regard, the regions to receive attention were not capable of renewal if left to their own devices. Second, the emphasis in resolving the problems of crisis areas should be on the accelerated restructuring of the local economy and on strengthening local enterprises as an appropriate economic groundwork. Finally, the government should work simultaneously on crisis management and on support for innovation in developed regions.

Based on the experience of the first two years of transition, the government recommended the following changes in the system of objectives and tools in regional development policy: (a) the establishment of a medium-level governmental institution system to coordinate regional development-related tasks; (b) support for bottom-up structures within the system of local governments; and (c) reinforcement of the coordinating role of county governments with respect to regional development programmes.


One of the main obstacles to adjusting the Hungarian regional development initiative system to EU co-financing is the centralised sectoral system of support, where regional interests and regional coordination play
a rather subordinate role. There are signs of an increasing importance for regional development programmes, however. This process is mainly assisted by the PHARE Regional Development Programmes (1993–1996 and 1995–1999). In February 1993, the Hungarian government and the EU PHARE Programme reached an agreement to launch a programme in the field of regional development. The basic aim of the programme was to elaborate a new legal and institutional system which would fulfil the requirements of EU regulations.\textsuperscript{29} The first important step of the PHARE Regional Development Programme (RDP) was the preparation of a strategic paper on regional policy and the Regional Development Fund, in 1994.\textsuperscript{30} The paper emphasised that Hungarian regional policy must respect the overall principles of EU regional policy (eg programming, subsidiarity, decentralisation and partnership). In line with these principles, the paper summarised the tasks as follows:

- abandoning the old “shopping list” project approach and confirming the principle of programming in the Hungarian Act on Regional Development, then under preparation;
- clarifying the role of parliament with a new law on regional policy;
- strengthening the coordinating role of the government by defining a clear concept of regional policy;
- strengthening ministerial and inter-ministerial coordination through a clear definition of roles;
- strengthening the role of decentralisation through regional authorities.

The proposed decentralised regional policy had two key institutions: Regional Development Agencies and Regional Development Councils. Regional Development Agencies were to be established to adopt a coordinated approach to development in the regions, and to provide a more effective means for delivering financial assistance. The task of representing local interests, setting priorities, and providing guidance to the Regional Development Agencies would be the responsibility of Regional Development Councils to be established at the county level. Membership would cover a broad spectrum of interests, including representatives of local governments, the social partners, county administration, the local banking sector, local members of parliament, local enterprises, and Regional Development Agencies. The Councils would be responsible for: (a) devising regional development strategies and action programmes, as well as taking care of financial research; (b) coordinating the operation of existing organisations; and (c) ensuring that resources are spent efficiently, effectively, and with proper coordination.

The main purpose of the PHARE RDP was to prepare participants in regional development (institutions, experts, and entrepreneurs) for the effective use of structural funds in the future. The RDP set up a Council-
Agency structure on the county level in two pilot counties, and pilot funds were launched in two northern regions (Borsod and Nógrád). The Councils were created on the basis of partnership both on the local level and with the government. Apart from the Council, a Development Agency was set up in each county to assist the council and to coordinate the development process within the county. Decision makers agree that the pilot actions were useful for the ongoing elaboration of a new concept of regional development policy. The basic institutional background was established, and both the political (Council) and the administrative (Agency) structures have had useful experience through practice and training.

In autumn 1994, the preparation of a steel reconversion programme started in two counties. These regions were not only suffering from the crisis of the steel sector – troubles in the mining sector added to their problems. In December 1994, a government decree was carried out on steel industry reconversion. Regional Development Councils in both counties were asked by the government to prepare strategic programmes. The government proposed to let the Councils (assisted by the Agencies) be responsible for the implementation of the reconversion actions. Under the agreement between the Hungarian government and European Commission, PHARE support would be given to two sub-programmes in 1995–1999. The first, a regional development sub-programme, is a follow-up to the Regional Development Programme. This programme will assist the Hungarian government in setting up and implementing structures which were introduced under a new law on regional development. The second is the integrated reconversion programme in Borsod and Nógrád counties.

A considerable result of the PHARE programme so far has been strengthening the role of settlement associations in the implementation of sub-regional development programmes. These associations have proved to be an appropriate tool in working out local development strategies and in the consensus-based determination of priorities.

### 3.1.3. Recent developments in regional development policy in Hungary (1996–1997)

Since June 1996, the legal basis of regional policy has been given by the Act on Regional Development and Physical Planning. The Act determines the general responsibilities and powers of the parliament, the government, the ministries concerned, and of the National Council for Regional Development. In a move towards decentralisation, the Act sets the objectives, tools, and priorities of regional development, calls for the establish-
ment of medium-level regional and county development councils, and determines the process of preparing and approving regional policies. Major tasks of the Ministry of Environment and Regional Policy in the period ahead are to establish the structures foreseen in the Act on Regional Development; to elaborate the National Regional Development Concept; and to implement decrees connected to the Act. While decentralising tasks to the Regional Development Councils and the County Development Councils, there was a need on the central level to have a more coordinated approach towards regional development, and to collect overall national priorities in a national development concept. The National Council for Regional Development established at the end of 1996 has the aim of discussing such plans with the ministries and regions concerned. The regional aspect of transition has a strong role in most parts of government policy. There is no doubt that apart from regional development policy, the second most important field is the employment policy of the government. The following sections of this paper will describe the most important changes in employment policy in response to the regional challenges of transition.


In March 1991, the Act on Employment Provision for the Unemployed (the Employment Act) was adopted by the Hungarian parliament to provide a legal framework for the formulation of passive and active employment policies. The Act itself was the result of joint efforts of experts in the Ministry of Labour and representatives of the social partners. Regarding regional labour market tensions, the basic ideas of the decision makers were as follows:

• In most cases, regional unemployment problems could be managed by the decentralised system of labour market administration and by the decentralisation of funds for active employment policy measures.
• Serious crisis situations could be handled by central intervention using the centralised portion of the Employment Fund.

According to the Employment Act, the Ministry of Labour supervises the

network of labour market administration, designs employment policies and represents the government in tripartite labour conciliation bodies. The operation of the active employment policy measures and the unemployment benefit system is the responsibility of the National Labour Market Centre – an autonomous body of the Ministry of Labour – the County Labour Centres, and the 185 Local Labour Offices. This system dates back to 1990–1991, before the appearance of mass unemployment. Staff employed in the administration of the labour market grew from 600 to 4700 between 1990 and 1996.

Until 1996, the supervision of the central funds and the decentralisation of a part of the Employment Fund was carried out by a tripartite body called the National Labour Market Board (NLB). The NLB determined at the beginning of each year the portion of the Employment Fund to be decentralised, and distributed it among the counties on the basis of a pre-fixed formula set by regulation. In this process of differentiation, the NLB considered primarily regional differences in unemployment. After the funds were distributed among the counties, they were controlled by the County Labour Councils, also functioning on a tripartite basis. These councils determined the allocation of available funds for specific employment measures or tools. The decentralised portion of the Fund was managed by the County Labour Centres. When allocating the funds of the counties, County Labour Councils had the freedom to favour small regions suffering the most critical employment problems.

In 1992, 50% of the freely distributable portion of the Employment Fund was decentralised. There were substantial differences in the decisions of county labour officials concerning the distribution of these decentralised finances for different types of employment policy measures. For example, Borsod county, suffering from mass lay-offs in heavy industry, spent well over the average on early retirement, while in Szabolcs, a county dominated by outdated agriculture, spending was largely shifted towards job creation and the assistance of public work. Regional motivations were equally present in the allocation of the non-decentralised portion of the Employment Fund. Several sub-budgets of the central Fund have been aimed at reducing regional tensions, as described below.

**Sub-budget for assisting the operation of regional retraining centres.** The first centre was launched in Borsod county, a region hit by large-scale industrial restructuring. At present, nine regional training centres are operating, established with the help of a World Bank project in Budapest and in the following counties: Békés, Hajdú, Borsod, Bács-Kiskun, Szabolcs, Baranya, Fejér, and Vas.

**Intervention Fund to manage regional employment crisis situations.** The Intervention Fund was the only part of the Employment Fund which the Minister of Labour could allocate without the approval of the NLB. The rea-
son for establishing this Fund was to provide the Minister with a means to intervene quickly and flexibly in the event of an extreme worsening of the employment situation in any region.

**Fund to finance the operation of employment and training associations.** Employment associations are organisations founded by the Ministry of Labour, which, in case of mass redundancy, re-employ workers laid off by the company for a maximum of two years. The associations provide retraining and long-term employment. According to the decision of the NLB, such associations can be established only in regions where the employment crisis goes beyond tolerable limits. So far there have been two such cases, both in Borsod county, where the closure of metallurgical plants resulted in massive lay-offs.

**Central budget to provide support for local employment policy.** This fund provides extra assistance to those county-level labour market programmes which are justified by the employment status of the region in question, but for which the counties do not have sufficient funds.

The experiences of the first three years of decentralised employment policy led to contradictory conclusions. On the one hand, the adjustment of passive measures to regional differences in unemployment could be considered successful. On the other hand, active employment tools were not powerful enough to reduce regional disparities of unemployment. Early in 1993, growing unemployment and widening regional differences prompted the social partners to reach an agreement on the need for a new, comprehensive strategy of employment policy. An action plan was put together by the government, which was then submitted to the National Council for the Reconciliation of Interests.

The document summarised the short-term duties of the government in employment policy, in five chapters. A separate chapter was devoted to the administration of regional employment crisis situations. The most important recommendations in this respect were as follows:

- The social partners should be responsible for deciding which employment-related tensions cause a region to qualify for the status of a "crisis region". The social partners have the right to decide what special assistance crisis regions are eligible for.
- In crisis regions, only such programmes can be launched which result in quick and direct job creation, or which contribute to the continued availability of jobs. In acute crises, new employment associations need to be established.
- Part of the Intervention Fund, intended to provide aid in employment crises, can be spent on the implementation of local development programmes following a consensus by the social partners.

In March 1993, as a first step toward implementing the new crisis management strategy, the NLB introduced an application system to obtain
additional financial support for active employment measures for small regions in particularly deep employment crises. This programme failed, at least in the sense that it did not improve the position of crisis regions. The counties used the funds received through the application system for financing unauthorised projects. In addition, it was the relatively better-off regions which primarily benefited from these funds.

3.3. Regional considerations in employment policy in the second phase of transition (1994–1996)

Two decisions of the NLB concerning regional aspects of employment policy are worth mentioning: (a) a decision to increase the decentralised portion of the Employment Fund to promote local initiatives; and (b) a decision that sub-funds that remain centralised should be spent on employment projects which constitute parts of complex regional development programmes rather than on separate employment projects. One could observe two tendencies in these areas after 1994. On the one hand, the Ministry of Labour continued central employment development programmes linked to industrial reconversion projects in the Sajó Valley industrial region. This was the first case in which the government aimed at elaborating a regional employment programme coordinated by local actors and co-financed by various sources (PHARE, the Employment Fund, the Regional Development Fund, and others). On the other hand, the NLB decided to use additional financial resources to assist local employment development programmes initiated and managed by local actors. In 1995, 49 sub-regions prepared applications and 23 sub-regions received support within the framework of this initiative.

In February 1996, the Ministry of Labour evaluated the adoption of regional priorities in employment policy, and came to several conclusions. First, active measures were concentrated primarily in the county seats, larger cities with relatively favourable employment situations.
Second, the capacity of labour offices does not correspond to regional differences in unemployment. The client/executive ratio is extremely high in backward regions. Third, there is a lack of information concerning eligibility for active measures at the level of local labour markets. There is no information on distribution of decentralised funds between LOAs. The information necessary to coordinate and harmonise local employment development programmes and LOA-level economic development programmes is not available. Fourth, some local employment development programmes achieved the original aims of policy makers. Nevertheless, a large number of local programmes failed, in spite of the availability of financial resources. The main causes of these failures were as follows: lack of Regional Development Agencies and experts in the regions; lack of intention to cooperate; over-estimation of local resources available for the projects; passivity of local actors; change in the original targets of local initiators; and unclear aims of the programmes. Finally, the consequences of local economic crises could not be managed by intervention in the framework of employment policy. There is a need for comprehensive industrial development programmes in regions hit by industrial crises.

The NLB also came to its own conclusions, based on recent developments. First, it concluded that management of local employment tensions could not be based simply on institutions of employment policy. There is a need for comprehensive regional development programmes in crisis regions. Second, it found that the management and financing of local economic development programmes are not within the competence of employment policy. Local employment development requires the coordinated actions of several governmental and local actors. In 1996, Employment Policy Guidelines were adopted for the first time not by the Ministry of Labour, but by the government as a whole. The Guidelines stated that the government should promote job creation

actions in crisis regions by initiating complex regional development pro-
grammes.  

4. KEY PROBLEMS AND RECOMMENDATIONS CONCERNING
EMPLOYMENT ASPECTS OF REGIONAL DEVELOPMENT

A wide-ranging series of analytical and policy papers drawing up a vari-
ety of policy recommendations has been compiled in the field of employ-
ment policy and regional development policy in recent years. Instead of
simply summarising or appending these recommendations here, we
should like to draw the attention to some crucial problems and tasks in this
field.

An effective regional employment policy is needed, with a clear
regional development concept on principles, objectives, and priori-
ties of employment and regional development.

In December 1994, the social partners represented in the National Council
for the Reconciliation of Interests agreed that the government should elab-
orate a New Concept of Employment Policy, based on analyses of recent
labour market trends. The new concept has not yet been created. In spite
of the delay, however, there have been substantial changes in the organi-
sational, institutional, and legal framework of employment policy.
Unfortunately, these changes were not part of a comprehensive employ-
ment development strategy. Rather, they were motivated by considerations
outside the scope of employment policy, or were ad hoc reactions to crisis
situations or day-to-day problems in the field of labour policy and adminis-
tration.

As far as regional policy is concerned, the new Act on Regional
Development explicitly prescribes that the government should elaborate
and the parliament should approve a Regional Development Concept in
the form of a decree, and should set principles, objectives, and long-term
priorities of regional policy. After long preparations, several proposals and
drafts of the concept are now available. These proposals contain many
important elements which should be taken into account when shaping a

36 Government Decree 1129/1996 (22 December) on Guidelines for Employment Policy in
37 Amendments to the Employment Act in 1996 caused some institutional changes to tripartite
institutions and their work on employment policies. Since January 1997, the function of
National Labour Market Council has been fulfilled by the DBL.
regional development strategy for Hungary, but these papers still cannot be considered as clear policy documents. Numerous aspects of regional development are discussed, but dilemmas, contradictions, and policy alternatives are not drawn up in an explicit way.

The main lesson is that a regional development strategy cannot be compiled simply by merging regional priorities into sectoral ministries and other governmental agencies. Moreover, it is not the task of parliament to elaborate such a strategy. Experts of regional development and connected fields should clarify fundamental issues, and should solve existing contradictions by presenting alternatives. These alternatives, in turn, should be discussed, accepted, or modified by parliament, whose members carry the political responsibility.

In 1996, the government – without a comprehensive strategy – adopted yearly guidelines both in the field of employment and in regional development policies. In the Plan for Action of the 1996 Employment Policy Guidelines, the government requested the Regional Development Councils and the County Labour Councils to elaborate county- and LOA-level employment development programmes. The Councils were explicitly requested to join local employment policy initiatives and projects of local economic development (such as industrial parks, enterprise zones, etc.). According to the Act on Regional Development, one of the permanent members of the Regional Development Councils should be a representative of the County Labour Council. The main task of this representative is to support employment policy considerations and enforce priorities in regional development programmes.

Experiences of the last year show that the effectiveness of employment policy priorities in regional development cannot be based on the activity of Labour Council representatives in Regional Development Councils alone. The government’s 1997 Employment Policy Guidelines – in order to strengthen the position of employment policy objectives – requested that County Labour Councils and Regional Development Councils make formal agreements on coordinated financing of county-level employment development and regional development programmes.

In February 1997, the Directing Board of the Labour Market Fund (DBL) adopted Guidelines for County Labour Councils on Operating Employment Policy Measures in 1997. The DBL has requested County Labour Councils to elaborate so-called County Labour Market Programmes. Labour Councils should analyse local economic and employment tendencies and the effectiveness of employment policy measures, and should set priorities at the local level. County Labour Market Programmes should serve as guidelines for local employment
policy initiatives and the cooperation between County Labour Councils and Regional Development Councils.

According to the Act on Regional Development, the long-term objectives and priorities of regional development should be settled in the Regional Development Concept adopted by parliament: meanwhile, short-term goals and priorities should be settled in Parliamentary Decrees on Yearly Guidelines on the Operation of Regional Development Provisions. In 1996, the objectives and priorities of regional development were settled – as a provisional solution – by governmental decrees.

No evaluation is yet available on the effectiveness of employment policy considerations in the operation of the new regional development institutions. Nevertheless, we can make some preliminary conclusions from recent experience:

- In 1996, Regional Development Councils had only one month to prepare and submit applications for finances for regional developments projects. There was not enough time to settle local aims and priorities, to initiate development projects, or to evaluate and select local applications.
- The required institutional structures for co-financing local employment development programmes from multiple sources (e.g., the Regional Development Fund, the Labour Market Fund, etc.) did not exist.
- Failing a comprehensive system of national, regional, county, and local development strategies, there was no possibility for programme financing rather than project financing.

Negative experiences in the operation of the regional development incentive system of the last year might be repeated in the future. Unfortunately, neither the National Regional Development Concept nor the 1997 Guidelines for Regional Development Provisions had been compiled or adopted by parliament when this paper was written. Presumably, one of the main causes of the delay is the conflict of interests between different sectoral ministries and the relatively weak position of the Ministry of Environment and Regional Policy (which should have had a decisive role in the coordination of the regional development process at the national level).

38 Draft of Parliamentary Decree on the National Development Concept and on the Most Important Tasks of its Implementation (1996), op. cit.
39 Government Decree 169/1993 (3 December) on Regulation Operation of Regional Development Fund; Government Decrees 61/1995 (30 May) and 80/1996 (7 June) on the list of priority regions. (Priority regions are the four types of sub-regions discussed in section 2 of this paper.)
Employment policy considerations should have a decisive position in the priorities of regional development.

Undoubtedly, certain aims and priorities of employment policy implicitly have a very important role both in draft versions of the Regional Development Concept and in the existing guidelines for the regional development initiative system. For example, a draft version of the Parliamentary Decree on the National Regional Development Concept states:

- One of the seven principles of regional development is “decreasing regional imbalances”.
- One of the four basic objectives of regional development is “to approach the development changes and socio-economic conditions of the population living in different parts of the country”.
- One of the five medium-term priorities of the concept is “to reduce, or possibly to stop, the increase of differences among the western and eastern parts of the country in relation to the dynamics of the development of welfare factors and other civilisation elements, through: creating advantageous technical and financial conditions for ‘operating’ capital; supporting economic and job-creating actions in promoting regional development; connecting the northeastern and eastern part of the country with the larger network of the national transport and communications system”.

Employment aspects are more explicitly present in the incentive system of regional development determining the decentralisation of financial resources among regions. They also play a major role in the principles and financial conditions regulating the activities of the Regional Development Councils. In 1996, three factors were taken into account in the decentralisation of sub-funds for regional development: (a) the population of the counties; (b) the differences of economic development as measured by GDP per capita; (c) the population of priority regions. Four types of priority regions were defined in government decrees regulating the regional development incentive system in Hungary.

As far as employment policy objectives are concerned, the most serious problem of the existing system of regional development regulations is that it does not offer clear guidelines for decision makers at the national, regional, or local level. Objectives and principles in the Act on Regional Development are too general, and priorities in the guidelines for the regional development incentive system seem to be an agglomeration of priorities of different actors in the field of regional development. When adopting the national Regional Development Concept, parliament and the government should select among several important, but sometimes contradictory objec-
The regional development concept should decide on the importance of the reduction of regional differences of unemployment in an overall ranking of regional objectives. If this goal is given a high priority in the list of objectives, then long-, medium-, and short-term tasks of regional equalisation should be developed.

The Regional Development Concept and Guidelines for the regional development incentive system should make clear which type of activities or projects are considered to be effective measures of local employment development. Results of analyses of regional processes of the transition thus far (see section 2) may be useful for policy makers. For example, if the reduction of unemployment differences is a high priority of regional development, and if differences of unemployment are mostly determined by entrepreneurial capacity, regional distance from economic centres, and the ethnic composition of regions, then guidelines for regional development incentive system should encourage local actors (such as Regional or County Development Councils or Agencies) to prefer: (a) development of traffic and transport systems as a tool to ease the effects of distance between central regions and periphery; (b) development of infrastructure and entrepreneurial capacity of regions hit by high unemployment; and (c) special programmes for Roma to raise their prospects for employment. If the level of education is a crucial factor of entrepreneurial capacity, decision makers should concentrate on the development of the educational system in regions having unfavourable entrepreneurial capacity. The principles, objectives, and priorities of regional development should be based on the analyses of spatial process of transition, the evaluation of the most important policies and institutions, and the evaluation of regional development practices in other transitional countries and in developed market economies.

Apart from the legal and institutional background, successful fulfilment of a regional employment development strategy needs dissemination of special know-how in the preparation, management, and implementation of local employment development programmes and projects.

The Act on Regional Development and the Employment Act offer a comprehensive legal and institutional framework for a decentralised decision-

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40 “Objective 1–6 regions” refer to the EU priority objectives determining the spending of the Structural Funds. Objective 1 concerns the development of lagging regions with a GDP per capita more than 25% below the EU average.

41 I. Illés, op. cit.
making and financing system, both in the fields of employment and regional development. It is the task of the county labour market centres and Regional Development Agencies to fulfil operative tasks in the field of strategy, programme development, preparation, and implementation of the decisions of the Labour and Regional Development Councils.

In the elaboration of employment development and regional development strategies and programmes, labour centres and Regional Development Agencies should harmonise priorities of regional development and employment policy. Their task is to elaborate complex employment development programmes at regional, county, or local levels. Establishment of institutions and organisations is only one of the necessary conditions of effective actions in this field. There is an urgent need in Labour Councils and Regional Development Councils, in labour centres, and in Regional Development Agencies for experts in regional and local employment development. Their know-how could be transferred through well-organised training programmes.

Institutions, a legal framework, principles and objectives should be harmonised with those implemented in EU regional policy. The requirement for “EU conformity” might be compatible with the general rules of structural policy, but country-specific characteristics should not be forgotten.

Some important differences between Hungary and EU countries could be summed up in a few main points. First, the gap between urban and rural regions is much wider in Hungary than in EU countries. Second, unemployment is much higher in rural regions than in industrial regions. Finally, there are differences in the profile of migration. Rural regions in Hungary are characterised by a relatively high population density compared to EU countries, and have not suffered substantial migration losses. A part of the redundant work force in industrial centres has been forced to return to rural areas. Because of these characteristics, most Hungarian priority regions could be classified as Objective 1 regions, with only a few of them suitable for treatment as Objective 2-6 regions.

Financial resources for regional economic and employment development can not be compared with those available in EU countries. Regional development funds in Hungary have not exceeded 0.1–0.2% of GDP. In EU countries with high regional differences, this proportion is much higher (eg Italy – 1.04%, Ireland – 0.63%, Germany – 2.3%). But what bearing do the Structural Funds have on enlargement of the EU? In a recent analysis of EU regional policy on enlargement, Iván Illés formulated three alternative scenarios:

- The criteria remain unchanged. As a result, some of the relatively
ANNEX: MAPS

Map 1  The counties of Hungary

Source: Hungarian Central Statistical Office

Map 2  GDP/capita as a percentage of the national average, 1994

Source: Hungarian Central Statistical Office
Map 3  Labour Office Areas (1995)

Source: National Labour Market Centre

Map 4  Economically and socially underdeveloped areas

Source: Hungarian Central Statistical Office
Map 5  Industrial crisis regions, 1993–1994

Source: Hungarian Central Statistical Office

Map 6  Areas of persistent high long-term unemployment

Source: Hungarian Central Statistical Office
Map 7  Underdeveloped rural territories

Map 8  Typology of LOAs

Source: Hungarian Central Statistical Office