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Territorial Policy During the Post-Socialist Period in Hungary*

Abstract

This paper studies territorial development policies in Hungary. It addresses the question to what extent territorial development of the 1990s is a function of the reconceptualisation of development in the post-socialist context, the inertia of socialist ideologies and practices, the path-dependency of Eastern Europe and the external pressure of the European Union. It examines the challenges for territorial development policy after the regime change, with special emphasis on the requirements of EU territorial policy. The Hungarian example shows the special problem in adjusting territorial development and public administration structures. It also shows the shift from a clear and explicit territorial agenda – urbanisation under socialism – to a less structured one.

Keywords: Eastern Europe, territorial development, post-socialism, urbanisation, development policy.

Conceptual Background

This paper is about the changes and inertia in the territorial development policy in Hungary during the 1990s. Like other countries in the region, Hungary experienced significant economic and social problems during the rapid transformation from socialism to the market economy beginning in the late 1980s. But not all Hungarian regions experienced the consequences of transformation the same way. Some were able to adapt to the new circumstances better, while others' performance was much worse. This is especially true of most industrial regions, which were favoured during the

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socialist period. So the question arises about how territorial development policy helps different regions deal with the economic and social transformation and the heritage of this policy from the socialist period.

Studying territorial development policy in post-socialist countries is important for three different reasons.

Firstly, the four decades of socialism left a particular spatial heritage in East European countries and influenced territorial development patterns after the regime change.¹

Secondly, general development patterns in these countries are now contingent on their place in the European and world systems and influence territorial development policy. They are subordinate players in both the globalised world-system and unifying Europe. This leads to eroding sovereignty because there is double pressure on these state governments: neo-liberal structural adjustment pressures from the economic powerhouses (IMF, World Bank, EBRD) and state-institutional pressures from the European Union. Joining the EU requires adjustment to the EU institutional structure, and – more relevant to this paper – the EU's particular conceptual and institutional frame for territorial development. The latter involves a set of policy requirements including more institutional transparency, less corruption, more opportunity for local participation and the principle of subsidiarity.

The third reason for studying post-socialist spatial restructuring is that it is under-represented in literature: relatively few studies have focused on territorial development policy changes in the 1990s. Understanding how development practice has changed during post-socialism should help East European countries modify the inherited spatial system in order to decrease inequalities. However, these efforts now sometimes result in new inequalities instead of decreasing previous ones.

We have to differentiate between development and territorial or spatial development. The first is the general approach to the question of how to improve a country's standard of living and quality of life: what economic sectors, institutional domains and demographic groups should be emphasised, what kind of trade-offs are needed and what is the underlying ideology behind the decisions.

In order to examine post-socialist territorial development we have to make a short detour to see how development in general was conceptualised. Development thinking in the first half of the 20th century was originally equated with economic growth and in the 1950s this was the basic principle of modernisation theory (Peet and Hartwick, 1999). However, the argument

¹ I define Eastern Europe as the countries, which were under Soviet influence but were not incorporated into the Soviet Union, following several authors who argued that Eastern Europe is more of a political concept than a geographic one (Held, 1994; Fowkes, 2000).

was that development is not just economic growth but also political modernisation and nation building (Pieterse, 2001; McMichael, 1996). This modernisation perspective was later criticised as Eurocentric, promoting the West's development path for the rest of the world. Despite this criticism, which elaborated the concept of development (Samuel, 1998), and due to the ineffectiveness of state intervention, from the late 1970s the neo-liberal economic model, which emphasised the role of the market predominated in development thinking. This agenda was promoted especially strongly for the developing countries (Pieterse, 2001).

Briefly, the original socialist concept of development also focused on economic growth, and it changed only slightly until the collapse of socialism. I will discuss the socialist and post-socialist development models in greater detail in this paper.

The Spatial Development Agenda of Socialism

Before going into the details of territorial development issues in Hungary, it is important to note two traditions in Eastern Europe: its backwardness, compared to other parts of Europe and its authoritarian governance models. Eastern Europe not only lagged behind Western Europe during the past decades of state socialism, but this backwardness rather originated around the 16th century. As Berend (1986) noted, this backwardness was connected with the transformation of the global economic system. Eastern Europe tried to close this gap for centuries in different ways but with very limited success.

After the 1st World War state power was essentially unquestioned in most East European countries. Various state governments from the 1920s used their power to impose development policies without any consultation with localities, using the strict and hierarchical public administration system to carry it out. Local autonomy and civil participation were suppressed in the region not only under socialism but also before it. So the lack of democratic structures under the socialist system was familiar for Eastern Europe.

During the socialist era in Hungary in the first period, development became equated with industrialisation according to the Stalinist model. The emphasis on industrialisation, as the only way for economic growth, originated in Marxist theory and in the Russian experience of the 1920s, and was accelerated due to the military needs of the Eastern Bloc.² Although this period lasted less than a decade in Hungary, its intensity left a painful

² This third cause was extremely important in the early 1950s (when the most industrial developments took place) when because of the Korean War, Moscow warned its allies to prepare for the next World War (Fowkes, 2000).

heritage. The social part of this heritage was a very low standard of living, which made the new system quite unpopular.³

By the 1960s, the period of extensive development was largely over. After a decade of Stalinism, domestic raw materials, transferable labour and agriculture were completely exploited. From that period Hungary and other socialist countries – according to the new Soviet model – put more emphasis on raising the standard of living in a new competition with the West, though their production and distribution systems could not accomplish this goal. Due to the lack of domestic capital many socialist countries used Western credits to ‘buy off’ public opinion and delay structural change, which pushed them into a debt trap (Gökay, 2001). By 1989, Hungary had the highest per capita debt in the world.

In Hungary the rebuilding process after the 2nd World War provided an opportunity to rearrange the spatial system by politically and administratively favouring some places over others. The new regime was not popular in some large cities with significant historical, civic or religious roles. These cities were deliberately left without economic or political support, while other smaller towns without any previous importance were developed as new working class strongholds. These new economic and political centres drew many thousands of rural migrants for whom this change was seen as an upward social mobility and whose ideological control was easier to ensure. Hence, the rebuilding of the economy was shaped by an ideological agenda rather than by economic efficiency or spatial equity.

‘Rural development through urbanisation’ was a fundamental element of Hungary’s socialist territorial development policy. This paradigm was based on Marxist ideology that was biased in favour of the cities as administrative centres, and the assumption that relatively small settlements are not economically sustainable (Enyedi, 1986 and 1996). Although these two considerations have by now lost their importance, the urbanisation perspective as a heritage is still alive.

A new national territorial development plan was established in 1971, shaped by both Christaller’s settlement hierarchy theory and the growth pole theory, looking for the optimal distribution of urban functions (Laczkó, 1994). With this, urban development was no longer limited to the largest cities. Although this plan was targeted at medium-sized towns, its overall impact on rural areas continued to be negative, because these towns drained all the development sources that were previously assigned to rural areas. The policy was to concentrate development in dense populations (Bibó, 1975).

³ This unpopularity resulted in uprisings in several countries, most notably in 1953 in the GDR and in 1956 in Poland and Hungary. The 1968 Czechoslovak uprising was a different issue; they pushed the post-Stalin normalisation too far.

Socialist planners believed that urbanisation was one way of closing the gap between socialist and capitalist countries. Urbanisation was measured first of all by increasing the proportion of the urban population. The policy to increase the proportion of the population living in urban areas led not only to rural-urban migration but also to the administrative incorporation of smaller villages to larger towns (or larger villages), creating new units with a lot of new social and economic tensions. These 'larger' settlement-clusters occupied a higher priority position to obtain improvements. Moreover, existing public services were relocated there.

The urbanisation agenda was very 'successful.' The rural population dropped from the pre-war 51 per cent to 37 per cent by 2001. When problems associated with the one-sided urbanisation process such as insufficient housing and social services became apparent, state resources for development were depleted, and Hungary was stuck with what Szelényi has called 'underurbanisation' (Szelényi, 1996). This meant that too many people were concentrated in cities with insufficient housing and infrastructure for their basic needs.

Development occurs within, and is shaped by, specific historical, social and spatial contexts as Pieterse (2001) notes, and thus varies according to culture, historical context and relation to the distribution of power. These constraints on development, which are ironically a fundamental but often forgotten part of Marxism, were a very hard lesson for 20th century socialism.

Spatial Development during Post-Socialism in Hungary

Although large-scale social changes need time to occur, the political structure of socialism in Hungary ended in 1990. Right from that time the country had to face extremely difficult economic and social challenges. The inflexible and formerly protected economy was unable to work under free market conditions, and was burdened with a high financial debt. There was a rapid decline in GDP, which did not reach the 1990 level again until 1999 (Government Report, 2001). The restructured economy emphasised different sectors and geographic locations (Enyedi, 2001), and the painful transformation to a market economy caused high inflation and high unemployment. As a consequence, large-scale downsizing took place and much labour was displaced. In the remaining state sectors (mainly in public social services, like healthcare or education) wages were stagnant.

However, some people were able to 'fish in troubled waters,' and could not only maintain but also improve their situations, sometimes showing extreme consumption patterns. Hungary lost the artificial egalitarianism of socialism, and experienced the increasing wealth inequality of capitalism.

New governments had to figure out a new territorial development policy for two major reasons. Firstly, the significant increase in spatial inequali-

ties since some rural areas could not adapt to the new conditions. The main causes for this included the dramatic collapse of agricultural jobs (due to the lack of a long-term agricultural policy like privatisation), the new international investors' focus on urban and suburban areas, and the decline of urban employment that forced a lot of commuting rural residents to seek their living in rural areas (Kulcsár and Brown, 2000; Brown, Kulcsár and Kulcsár, 2003).

The second reason for the new development policy was a demand for local autonomy and participation in decision making after the change to a more democratic political system. In Hungary, a relatively liberal local government system was implemented with considerable autonomy, but the state kept its dominant influence on monetary distribution. Settlement-level local governments had the right to organise almost every aspect of local life, but every year they were forced to negotiate their share of the collected taxes with the national state.

After 1990, the need for neo-liberal structural adjustment programmes was emphasised by the IMF as the only way of overcoming the economic crisis. Policy makers in Hungary were hesitant about accepting these requirements, because social and economic insecurity increased rapidly even without them. People will not re-elect governments which rebuilt the economy at the cost of unemployment, reduced social services and a great drop in standard of living.

This point is very important to understand the power characteristics of Hungary and other East European countries during post-socialism. Due to the prevailing political culture and a lack of democratic experience, East European politics are characterised by extremism. Held (1994) was correct in noting that this extremism is deeply ingrained in the public mind and based on a belief that only one 'truth' exists. This truth is always possessed by the governing administrative elite, creating a high intolerance of differing opinions. The main objective of all East European power elites was to keep their power and privileges.

Hungary's territorial development policy itself went through major changes in the 1990s. Between 1990 and 1994, the country lacked a consistent development policy. Sectoral policy, as a heritage of socialist thinking, continued to be dominant. After the initial shock caused by the rapid collapse of the nation's fundamental social and economic structures, government policy targeted the worst-off regions by direct fiscal interventions, without any explicit plan for their development. Although these interventions eased and slowed down the rapid industrial collapse, they were wasted money from the standpoint of development because they did not have the intention of addressing the problems at their roots but of postponing them. Typical of these policies was the cancellation of debts of large state firms or providing wages for their workers even if they did not actually work.

By the middle of the 1990s it was generally agreed that gradual changes were not achieving sufficient results and that 'shock therapy' was needed. The IMF forced Hungary to speed up its structural adjustment programmes. Moreover, territorial development policy during this period was strongly influenced by the EU. EU policy had substantial leverage on Hungary's decision making process because of the nation's keen desire for EU accession. Scandinavian and Southern European states also went through this process but the negotiating position of post-socialist countries was weaker than in previous accessions. Every EU expansion resulted in a major restructuring of its territorial policy, and new member states in previous accessions were able to achieve some changes in their favour.

With the launching of the PHARE programme in Eastern Europe, the EU emphasised a more formal process of regional development involving local participation and other structural requirements.⁴ The most important of these structural changes was the imposition of regions and micro-regions as units of territorial development. Following this pressure a national regulation was gradually made by 1996 that involved a re-conceptualisation of Hungary's spatial development policy and a detailed re-definition of its institutional system. In 1998, due to political negotiation after the government change, the responsibility for territorial development was assigned to the Ministry of Agriculture. This was a mistake because the apparatus of the Ministry viewed rural development through the narrow lenses of the sectoral policy of agricultural production. Integrating agricultural sectoral policy into rural development is one of the important issues even in the EU (Bryden, 1999).

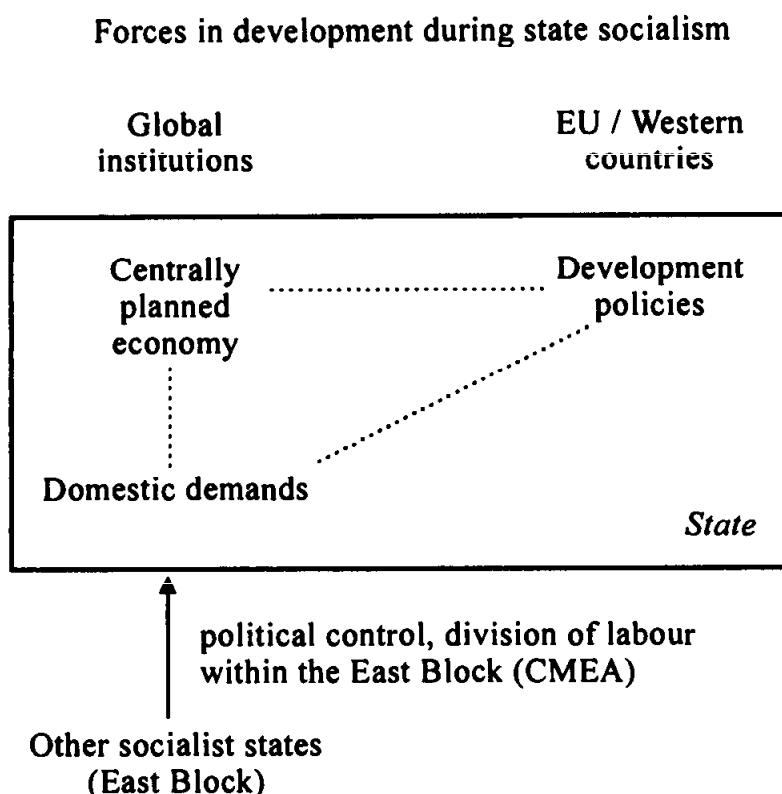
Figures 1 and 2 summarise the change in territorial policy caused by the collapse of state socialism, and the emergence of global and regional regulation over the post-socialist countries. As can be seen in Figure 1, state socialism was a relatively closed system with very few challenges from external forces other than the Soviet Union, or the CMEA.⁵ Domestic demands, macro economic processes, and territorial development decisions were controlled by the state.

With the fall of the Iron Curtain as a protecting shield from global reality, both external and internal challenges strengthened rapidly (as shown by the bold arrows in Figure 2). East European states suddenly had to face a much more complex, multi-level and difficult situation. They had to re-define the state's position in territorial development, and they had to do this while experiencing eroding sovereignty due to the penetration of external forces.

⁴ The PHARE programme is a pre-accession initiative to show the EU models for institutional reforms, public administration and territorial development in East European countries.

⁵ CMEA: Council for Mutual Economic Assistance, the common socialist economic organisation.

Figure 1



One element of this eroded sovereignty is the limited capacity to determine spatial distribution of capital investment in these countries. Investments are made where the best returns can be found and capital stays in the local economies only until better returns are available elsewhere. Although there are different opinions about the state's position in influencing the new economic order,⁶ it seems clear that this new arrangement diminished those states' impact on territorial development in relation to the power of global and regional capital.

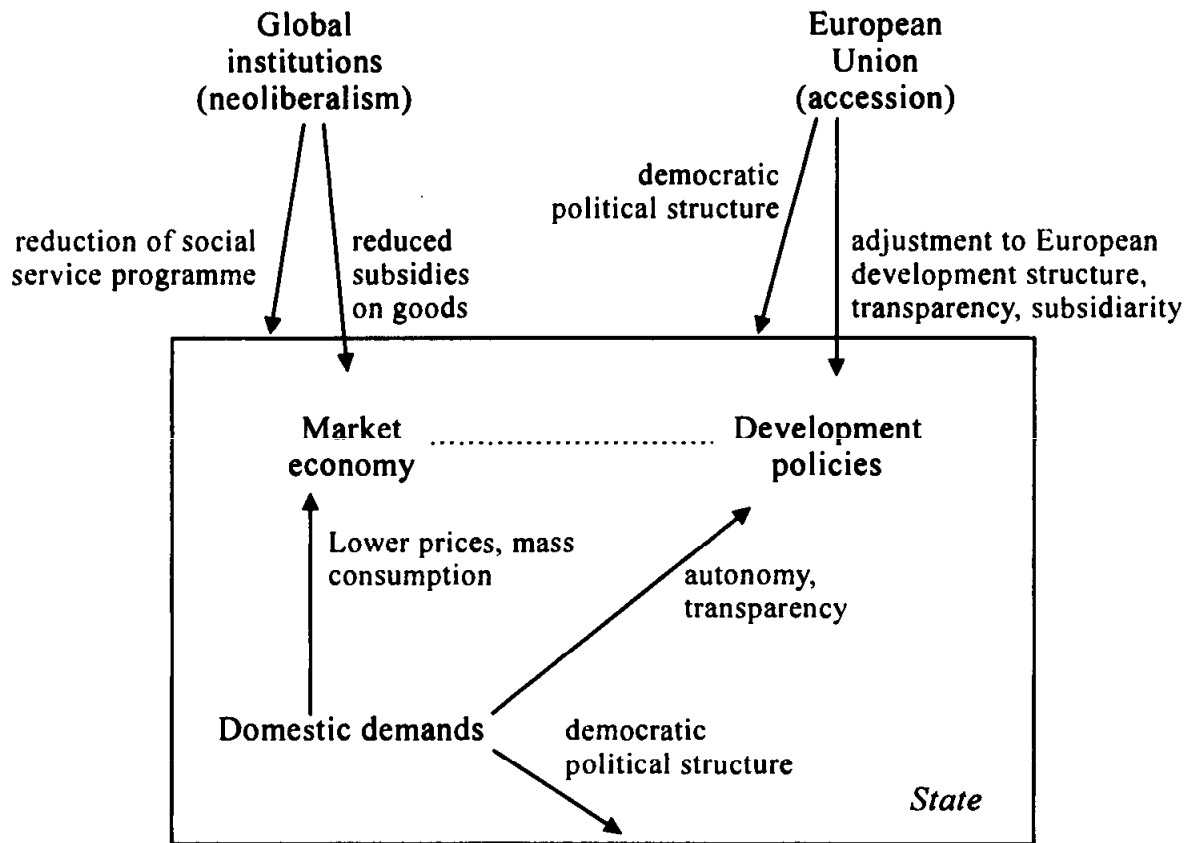
From outside, global agencies forced the neo-liberal agenda of reorganising economic institutions, as it was a usual process for developing countries. The EU created serious pressure on post-socialist countries seeking accession. The artificial Eastern market and political system perished or rather were incorporated into the global order.

Internal pressure on the state also increased. The democratic political system gave local actors much more knowledge about almost every aspect of the western way of life. People began to demand local autonomy and western consumption patterns, but at the same time they did not want to give up the low prices they were used to, creating a counter pressure on the neo-liberal development agenda.

⁶ See Hanley et al. (2002), who argue that the way of Hungarian privatisation, with a short period of favouring the national capital accumulation was one way of using property allocation to shape development.

Figure 2

Forces in development after state socialism



The other component of the internal pressure is the re-conceptualisation of territorial development as a more local-based process. Localities demanded more influence in making local territorial development plans, parallel with the increased autonomy in the system and emphasising the importance of local knowledge. These efforts are consistent with EU regulations and requirements.

Making territorial development policies in this new domestic and international environment was not easy, especially due to constraints caused by the inherited inertia. In Hungary, for example, one of the largest difficulties is the unclear structure of territorial development. This confusing structure consists of both historical public administration units and new EU classification ones. The NUTS system⁷ of the EU is strongly shaped by the concept of regionalism, but Hungary has neither ethnic nor historical regionalism and people's identities are seldom constructed by regional patterns (Enyedi, 2001). This does not mean that spatial considerations do not play any role

⁷ NUTS = Nomenclature des unités territoriales statistiques (Nomenclature of territorial statistical units).

in identity construction. These spatial components are however, either dichotomies (Budapest and the rural rest; east or west) or connected to very small geographic areas, therefore, they bear no resemblance to EU type regionalism.

In order to understand the problems of instituting the new spatial development system, it is important to underline that the geographical borders of lower-level territorial units never cross the borders of higher-level units. In other words, the smaller units always have to adjust to the larger units, regardless of their type. All public administration units have development roles but it is not the same the other way around (see Figure 3).

The new territorial structure is quite complex but for us the main points of the problem are the following:

- the fundamental structure is the old, historical public administration system (state – counties – settlements) that is resistant to any change;
- the EU requirements of territorial structural adjustment involve the adoption of EU units, which are inconsistent with the former Hungarian units;
- this mixture of units creates serious tension and confusion about the roles of conventional public administration and new territorial units;
- the two main elements of this tension are the question of autonomy of the different units in the hierarchy and resource distribution within the system.

This tension clearly hinders the efficient operation of territorial development policy because it is operated through public administration channels that tend to resist structural changes involving regionalism. The roots of this resistance reach back to the 19th century, but they were strengthened during socialism. The public administration system, especially when it is burdened with politically motivated persons, has its own inertia and conflicting interests. In addition, the institutional system is inconsistent, since some units have both administrative and development roles, while others have only one or the other. This system is often non-transparent, providing a lot of space for corruption at all levels, and the possibility of 'payback-effect' around the tensions of resource distribution.

In summary, Hungary's territorial development policy moved from the very clear and strongly administered urbanisation agenda of socialism to a mixed development policy and practice during post-socialism. The latter form involves direct interventions in particular situations and a neo-liberal consideration of letting things go in their own way. One main problem, however, is that because the political culture of post-socialism, direct interventions are almost always connected with political motives.

Conclusion

Let's look at the general heritage of socialism in Hungarian territorial development? The first important fact is that 40 years of socialism did not

Figure 3

Territorial development structure of Hungary*

Unit	Number	EU classification	Origin	Structural characteristics	
				in development	in public administration
State	1	NUTS I.	historical	top of the hierarchy both in development and public administration	
Region	7	NUTS II.	1996, as an adjustment to the EU territorial support system	statistical unit for internal purposes and EU comparison and the basic unit for preparing programmes for obtaining EU support	none
County (+ the capital)	19+1	NUTS III.	historical	the main distribution channel and decision making point for internal supports	middle level unit with elected representatives; provides services for more than one settlement
Micro-region	150	NUTS IV.	1994, as an adjustment to the EU territorial statistical system	statistical unit for internal purposes and EU comparison	none
Settlement	3135	NUTS V.	historical, but with significant autonomy only since 1990	basic unit for development and internal statistics	basic unit with large relative autonomy

* These are only the concrete elements of this system, the law allows creating voluntary organisations for the non-administrative levels (e.g. settlements can freely form micro-region level units for development purposes, like applying for particular support).

help much in catching up with the West and, as Berend (1996) noted, it was a 'detour from the periphery to the periphery.' Eastern Europe probably will not catch up with Western Europe even after being admitted to the EU due to its weak negotiating position. The region probably will not be able to act as a homogenous block because the accession process has become a kind of competition among the states concerned.

Another important element is the inertia of the former non-democratic political systems that has changed only on the surface in most of those countries. The new pluralist, multiple-party systems with free elections are only frames.

The third general heritage is the ideological bias in socialist development policy. The strong emphasis on urbanisation and industrialisation as the only ways of development was clearly biased against rural areas. But I would argue that it did not favour urban areas either, at least not in the long run. The one-sided urbanisation policy, which emphasised urban economic growth over broader social development, created serious social tensions and almost insoluble social problems which held urban areas back.

Besides the general heritage, how has the socialist experience affected Hungarian territorial development? Hungary experienced all the symptoms of the general problems of East European countries since 1990. The first important constraint was the eroding sovereignty of the state. The rules of the game changed and Hungary had to adjust to the new global order as a semi-peripheral state. EU requirements set up the frame of territorial development, and left very limited space for negotiation. Hungary had to accept the EU territorial structure regardless of its inconsistency with the Hungarian structure. This does not mean that EU units are useless, indeed, micro-regions are more natural spatial units than counties for example. The point is that the spatial system that gradually evolved in Hungary had to be rearranged by external pressure, creating serious opposition from the sub-national level of administration.

This eroded sovereignty was experienced simultaneously with a rapid collapse of the nation's economic and social structure during the early 1990s. We will never know how the region would have performed without socialism, but this detour resulted in a major economic breakdown all over Eastern Europe and in addition a huge financial debt. Therefore, territorial development was a low priority task for the state in the first half of the 1990s. Solutions first had to be found for macro level economic and social problems.

Territorial development policy during socialism was not really territorial but sectoral planning. The administrative units of different sectors made separate development plans with little coordination, resulting in an expensive yet inefficient practice. Territorial development is now the preferred

model, and it should take into account the area as a whole because it will inevitably affect all parts of society. Under socialism the establishment of an efficient territorial development policy was hindered by this sectoral view which has survived till this day. One of the contemporary examples is the continued and anachronistic dominance of the agricultural approach to rural development. Furthermore, due to the sectoral approach, the fiscal system of Hungarian territorial development support is extremely complex, giving the state significant power for resource redistribution.

In addition, the Hungarian public administration system has deep historical roots that are resistant to the new units introduced by the EU. This resulted in a redundant structure with several drawbacks including operating inefficiency and a very close connection with the changing political elite. Moreover, this structure is burdened with a continuous struggle over autonomy and authority among the various levels of governance.

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