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THE REGIONAL POLICY OF THE TRANSITION IN HUNGARY

Abstract: The introduction in Hungary of market economy and the transformation of the social administration has fundamentally altered the aims, as well as the institutional and regulatory system of regional policy. Regional processes have been affected by reform programmes, and unfavourable spatial changes have emerged from the transformation of the budgetary and monetary systems, particularly for rural and old industrial areas. The aims of Hungarian regional policy should be to reduce spatial disparities among regions and settlement groups and to create equivalent conditions for economic restructuring in the various regions. The realisation of these targets will not take place over the same timescale, as different types of problems require different solutions, methods, priorities and institutional systems. The task of Hungarian regional policy should be determined by law, and a parliamentary Act should be passed to clarify the aims, means and key institutions of regional policy. The paper reviews the above areas, and provides an assessment of the strengths and weaknesses of Hungarian regional policy.

Key words: regional development and policy, institutional system and decision-making of regional development, incentives.

1. THE PRESENT STATE OF THE REGIONAL STRUCTURE IN HUNGARY

In 20th century regional development in Hungary, apart from the influence of the inner principles of the economy, the economic policies, and within this, the regional development policies of the state, was also markedly influenced by international political decisions (cf. Trianon Treaty and Yalta Agreement) that

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upset the spatial structure of the country and delayed its integration into the developed part of Europe.

Due to the economic policies of the last fifty years and to the settlement structure development initiated in the 1960s, the spatial structure of the country has changed, its urban pattern has become formally (considering the level of urbanisation) more 'modern', the differences between the major regions have lessened. In spite of this undoubtedly favourable changes, the spatial structure of the country still does not suit the conditions required for the rise of a modern market economy. The social and economic innovations as well as the country's integration into the European regional division of labour are hindered by the lack of cohesion and of infrastructural connections between the regions of the country and by the underdeveloped character of regional centres that should be able to take part in the competition of European cities.

The present spatial structure in Hungary may be characterised by the following:

1. The most characteristic feature of the country's structure is its monocentric nature. Budapest, the capital city has a very large population share (20% of the total population). It plays a much bigger role in the business, cultural life and politics than would be warranted by the size of its population (table 1) (Barta and Conti, 1994; Enyedi and Szirmai, 1992);

2. The West–East disparity is also evident in Hungary, with the Danube river representing a sharp dividing line. Following economic and political liberalisation, areas close to the border with Western Europe have been able to reverse some former problems such as low population density, out-migration, poor housing and infrastructure. Several socio-economic indicators – unemployment, number of private firms, foreign investment, quality and density of infrastructure – deteriorate with distance from the border areas, with the fewest opportunities and development prospects in the eastern and north-eastern parts of Hungary (cf. figure 1) (Downes and Horváth, 1996);

3. Hungary is a homogeneous country from ethnic, linguistic and historic point of view. Traditionally, the country has a unitary, strongly centralised public administration system. There are more than 3000 local authorities in total, and this disintegrated structure defines central development priorities and the scope of regional policy. The strengthening of the local government level has been paralleled by a significant weakening of powers of 19 county governments. The counties have been left as subsidiary administrative units; they fulfil tasks which the local authorities are not able, or are unwilling, to perform. Regionalism is weak within the country (Pálné, Kovács and Hajdú, 1994).

More so than in other Central and East European countries, Hungary has pre-reform experience of operating a type of regional development policy, and a distinct regional development strategy can be identified from 1971 onwards (Horváth, 1995a). The government decrees of the time led to regional development planning and the inclusion of regional priorities in the redistribution of financial resources. This cannot, however, be regarded as regional policy. The central control of regional development was divided along sectoral lines, and sectoral objectives were superior to regional concerns in government policies (Horváth, 1989; Illés, 1993).

In 1985, a parliamentary decree defined the long-term tasks of regional policy, and a resolution for more rapid development of backward areas was passed by the Council of Ministers to achieve the targets specified. The programme was not able to achieve any significant results as the financial resources were insufficient and the institutional system was inadequate. In particular, sectoral priorities continued to take precedence.

2. RATIONALE FOR MODIFICATION OF HUNGARIAN REGIONAL POLICY

The introduction of a market economy in Hungary, and the transformation of the social administration, has fundamentally altered the aims and the institutional and regulatory system of regional policy. The majority of reform programmes introduced as part of the political and economic transformation have had, and continue to have, an influence on regional processes in the Hungarian economy. The programmes themselves have also prompted new processes, both favourable and unfavourable (Farág and Horváth, 1992).

Unfavourable changes have emerged from the transformation of the **budgetary and monetary systems**. The regions exporting food and agricultural products, and those with extractive and raw material industries, have been most adversely affected by the reduction in the former large-scale state subsidies. The new tax system relating to the labour force and the abolition of agricultural credit preferences has resulted in falling incomes and widespread unemployment in rural areas. Even the new regulatory (normative) system of state subsidies for local governments has not been able to counteract the disadvantages of lagging regions. As in other European countries, regions of industrial crisis have emerged in Hungary, and lagging regions are in an increasingly desperate situation.

The transformation of the **institutional system of social administration** is not in harmony with regional policy aims. The establishment of autonomous local governments and their new financing system has created favourable conditions

for local economic development, and particularly for settlement infrastructure. With the closure of the National Planning Office, medium-level administration has been weakened, and planning as a means of economic management has almost entirely disappeared from Hungarian economic policy. No co-ordinating institutions to harmonise sectoral decisions have been legally established, such as regional development councils. The co-ordination of crisis management and funding programmes, created at the time of economic crisis has, therefore, not been achieved at institutional level, and the conflicts between individual institutions have if anything grown more intense.

With the implementation of political and economic reforms, the environment for regional policy changed markedly. Under the new constitution, Parliament was given new powers, and the 1990 government created a separate Ministry of Environment and Regional Policy. A Regional Development Fund was established and reorganised in 1991 for the financing of regional development. Nevertheless, a clearly specified concept or strategy for regional policy was not formulated during this period (Szaló, 1994).

The most recent legislation regarding regional policy was passed in 1993, providing a new definition of the main tasks and means of regional policy. The principal tasks as laid out in the decree included regional crisis management and the economic transformation of depressed and backward regions; the implementation of selective infrastructure projects, focusing on backward areas; and the establishment of the basis for internal and international co-ordination. Although no specific guidance was given on an appropriate institutional system, the decree stipulated that institutions should be promoted that are in harmony with the EU system and internal conditions.

The decree also laid down the main supporting tasks of the Regional Development Fund, including investment aimed at job creation and maintenance, regional and county development programmes, infrastructure investment and business services support.

Despite these new legislative measures, the formulation of a proper regional policy in Hungary remains incomplete. The fundamental problem facing regional policy-makers in Hungary remains the lack of an overtly and explicitly stated overall concept or strategy. The government decrees and other measures introduced to date have dealt with tasks, functions or specific organisational elements rather than objectives. Initiatives are *ad hoc*, reactive and uncoordinated, and individual county or area programmes represent only partial, rather than co-ordinated, interests.

There is, for instance, a strong argument that regional policy is a strategic part of overall economic policy. During the period of transition at least, it is important to consider regional policy and regional planning together.

The aim of Hungarian regional policy should embody a clear socio-economic rationale along the lines of “reducing spatial disparities among regions and settlement groups and creating virtually equivalent conditions for economic restructuring in the various regions”. Regional policy should identify and support those economic activities which are viable in the long-term – as opposed to the current short-term decision-making which risks resource reorganisation based on out-dated production facilities and poor technology. For example, a careful analysis should be made of the possibilities of agricultural development, as Hungarian agriculture is expected to remain a labour-issuing sector for some considerable time.

The nature of the coalition which formed the agenda of the new government following the recent (May 1994) elections has determined what could be placed on the agenda and what its content could be. It was also determined – to some extent – by the new government’s strategy for economic policy, to introduce changes to the state budget, and on the future of local government. The current programmes of the dominant political parties contain certain favourable elements from the point of view of regional policy development as they are in agreement on several important issues:

- development disparities between regions should be reduced;
- the reduction of regional disparities should be supported by state and budgetary means, and the resources in the Regional Development Fund should be increased;
- the number of state funds should be reduced, and co-operation between them should be reinforced;
- the role of the counties, and principally their regional development functions, should be reinforced, and
- a territorial-regional system for the reconciliation of interests and future co-operation of the individual institutions of regional development should be established.

3. THE DECENTRALISATION OF REGIONAL DEVELOPMENT DECISIONS

As regional development is currently evident only at the central administrative level, it is clear that regional development is initiated by central government. A small number of ministries have a primary role in the organisation of regional development programmes, including the Ministry of Environment and Regional Policy through its regional development tasks, and the Ministry of the Interior, through its direction of county development programmes. Although the Ministry of the Interior was in overall charge of these programmes, their preparation,

drafting and target identification followed the conventional 'top-down' decision-making model. The problems of the given county were discussed in the county session of the cabinet, and the Ministry of Environment and Regional Policy could compile the government's proposal on the principal issues. Following the formulation of local proposals and inter-governmental co-ordination, the government prepared its own proposal. However, without a national development strategy and county development concepts, government decisions cannot be realised due to a lack of resources and competent territorial organisations.

The formulation of county development programmes has resulted in many relevant experiences which should be taken into account in the reform of the political decision-making system:

1. County programmes will remain isolated without a comprehensive national development strategy. They will also represent only partial, rather than national, interests. For this reason, a national regional development concept should be formulated, and county development programmes should be subordinated to the national concept.

2. The national regional development concept should be based on regional elements of sectoral development strategies, and should strive for the harmonisation of sectoral development programmes.

3. Institutions representing regional interests, e.g. local and county governments, chambers, interest associations, should be given the opportunity to participate in the preparation of sectoral strategies and regional development programmes.

The co-ordination of sectoral and regional policies requires a revision of the Act on Competencies, a modification to the Local Government Act, and the creation of a system for the reconciliation of interests.

Territorial institutions (county governments, interest associations) currently play only a limited role in the regional decision-making system, and their opinions are not considered in the preparation of decisions and strategies.

The 'bottom-up' model of regional development has some tradition in the practice of Hungarian regional policy, and is most suited to the needs of a modern market economy. A regional policy based on this type of model requires a clear division of labour among the various decision-making levels. Central government institutions should determine the development strategy, which should be in harmony with national interests, and should put in place appropriate resources and organisational structures for its realisation. Territorial institutions should integrate local development initiatives.

The decentralisation of regional development decisions requires a revision of the decision-making system of state administration in Hungary, which should be accompanied by an expansion of the regional development competencies at county government level.

The various tasks of development management, the understanding of an area's development needs, the support of economic activities, and the development of a regional infrastructure are all related to the public interest, and therefore should fall under the competence of local government. The importance of the role of local government is based on the fact that, in addition to political considerations, effective regional development decisions must take into account local requirements and knowledge. This, therefore, requires a more interactive and integrative management structure than can be achieved through a central administrative system. The experiences of countries with developed market economies, as well as recent Hungarian attempts at regional crisis management, all show that the decentralisation of regional policy is essential, and that a regional development model based on central decision-making and re-distribution is no longer appropriate.

Regional development is not, however, exclusively the task of local governments. It should be based on a partnership of central government, local government and private institutions, although this partnership must be based on a clear division of labour and competence. The rationale for state involvement is not simply that state funds are committed for regional development, but rather that there is a need for state control over the measures and resources of regional policy because the state can provide overall central development priorities aimed at the reduction of regional disparities in economic, social and infrastructure development. These state priorities and regional development activities should be formulated to be in line with, and to meet, local interests, initiatives and resources.

Currently, there is no effective regional policy in Hungary because the role of the state is not in any way systematic. For example, villages and/or joint settlement associations participate only in small regional development programmes limited to a few sectors, and county governments have little power in the area of regional development, and have no resources for the realisation of any initiatives or co-ordination which could be undertaken.

The question which must be addressed is how county governments can become suitable for the support and co-ordination of their territorial areas. This will require political legitimisation, legal licences, financial resources, expert personnel and mechanisms which operate without interfering or overlapping with the essential interests of local governments and economic organisations.

The legal regulations of regional planning, which were passed in 1982, are now out-dated, at least from the point of view of development planning. Although Hungarian regional land-use planning is relatively similar to practices in Western Europe, management plans cannot be fully realised due to the lack of a complex planning system. As there is currently no Act on Regional

Development, a theoretical model of regional planning must be put forward, with particular regard for EU experience in this field.

It would be reasonable to involve the counties in the preparation of any macro-regional concepts. Macro-regional projects would best represent the partnership of the state and local governments, and the so-called regional development councils would be suitable for the organisation and realisation of partnership contacts. The current confusion in this field emphasises the need for clear legal regulation, which aims at partnership rather than centralisation.

In addition to macro-regional plans, there is also a need for county development plans and concepts. Their basic targets are:

- to harmonise development plans at a level higher than the settlements in the county;
- to provide information for local governments for the preparation of their individual development plans, and for the government's central and regional development programmes, and
- to provide assistance for the foundation of settlement associations with the designation of micro-regional borders, and to initiate the preparation of micro-regional plans.

4. REGIONAL INCENTIVE SYSTEM

Under the former system of central control, both the fiscal and monetary systems played an important resource redistribution role, both directly and indirectly, generally to the benefit of less developed regions. However, recent changes to the system have reduced this function, and have had significant regional implications.

Within the new **taxation** system, the principal burden is now on labour costs, rather than production. This adversely affects less developed regions, and has meant that many jobs created during the 1970s, when capital was more heavily taxed, are no longer sustainable – particularly considering the now out-dated nature of the technology in these factories (Voszka, 1994). The former high level of **subsidies**, (particularly for business organisations and in mining, metallurgy and agriculture) has been substantially reduced, removing considerable support for areas dominated by these sectors. The regional implications are particularly serious for the agricultural regions in eastern Hungary (Csatári, 1994).

The **credit system** had, in the past, a less significant redistributory role, although loans with favourable conditions were important for rural housing and agricultural co-operatives. Such loans are now being reduced, and the new

commercial banking sector is increasingly unwilling to lend to unprofitable agricultural enterprises. Former benefits to rural areas are, therefore, being eliminated.

Overall, the changes to the fiscal and monetary system have had an almost exclusively negative effect on underdeveloped regions, the only positive aspects being higher unemployment benefit and increased subsidies for local government. These negative changes are compounded by the relatively small number of government financial instruments directly employed to combat regional disparities. While the number of such instruments has always been small, the distinction is that now the overall economic policy does not indirectly serve regional development needs to the same degree as before. This situation heightens the need for the development of an active regional policy.

Although sectoral priorities should not dominate a distinct regional policy, regional development in the broad sense is influenced by a wide variety of policy areas. The way in which regional development could be stimulated through these other policy areas, and how they could be integrated with regional policy, should be considered in the formulation of a new regional development strategy for Hungary.

The new government has recognised that regional development cannot be looked at in isolation, that it is multi-disciplinary and requires a cross-sectoral approach. The key question is whether it is feasible, sensible or possible to regionalise most or all government economic policies. Should, for example, all 29 state funds be co-ordinated to meet regional goals?

Either strategic or operational planning are, unfortunately, not currently operating at a regional level in Hungary. Major sectors have their individual strategic plans, or long-term programmes, but their regional bases are very weak. For this reason, a review of strategic regional planning and a revision of its central allocation is very important. The Ministry of Finance is currently the official planning institution, but it does not have sufficient administrative resources for the realisation of this task. The tasks of regional planning should be transferred to the Ministry of Environment and Regional Policy, and this Ministry should be equipped appropriately to carry out these tasks effectively.

The definition of areas to receive regional development assistance has been an issue of active debate not only in Hungary, but also in the European Union (Bachtler and Michie, 1993). However, the definition of underdeveloped and disadvantaged regions differs between Hungary and the European Union. In Hungary, the criteria used for designation are based on the present stage of development. The coverage of assisted areas in Hungary is relatively small, encompassing only 17.4% of the population (table 2). However, cities where the industrial working population is falling and which face extensive restructuring are excluded from the assisted areas map due to their developed infrastructure,

and relatively high income levels and unemployment indexes. If areas of industrial depression were included in the assisted areas map, the number of population included in the map would increase by around 500-600 thousand. However, even then the population percentage living in assisted areas would constitute 25%, which is the west European average.

Table 2. Assisted settlements, 1993-1995

County	Number of settlements	Population in 1992	%	% of total population
Baranya	156	45 360	2.5	10.9
Bács-Kiskun	20	50 217	2.8	9.3
Békés	39	140 568	7.8	34.8
Borsod-Abaúj-Zemplén	284	377 166	21.0	50.4
Csongrád	12	36 219	2.0	8.3
Fejér	19	46 493	2.6	11.0
Győr-Moson-Sopron	8	2 405	0.1	0.6
Hajdú-Bihar	48	158 468	8.9	28.8
Heves	40	58 350	3.3	17.7
Jász-Nagykun-Szolnok	39	183 171	10.2	43.5
Komárom-Esztergom	9	40 762	2.3	13.0
Nógrád	111	186 447	10.4	83.7
Pest	7	9 981	0.6	1.0
Somogy	104	47 069	2.6	13.8
Szabolcs-Szatmár-Bereg	167	285 455	15.9	50.7
Tolna	37	33 392	1.9	13.3
Vas	46	21 490	1.2	7.8
Veszprém	57	19 413	1.1	5.1
Zala	115	50 090	2.8	16.6
Total	1325	1792 516	100.0	17.4

Source: Horváth (1995b).

The organisation of the Regional Development Fund, the drafting of the underlying and supporting principles, and the gradual increase in financial resources available through the Fund are all important developments relating to regional policy which have enlarged over the past three years. There are also other state funds which can be used for regional development, although they are not in any way co-ordinated. The reform of the Hungarian central budget is expected to reduce sharply the number of central monetary funds, but the Regional Development Fund is expected to survive.

Some observations may be made on the basis of the four-year operation of the Regional Development Fund. There are significant regional differences in the state subsidy system. Between 1991-1994, 70% of the total HUF 17 billion

of the Regional Development Fund was allocated to Szabolcs-Szatmár-Bereg and Borsod-Abaúj-Zemplén counties (cf. figures 2–3).

A number of principal comments can be made regarding the structure of regional policy and the Regional Development Fund:

1. As the Hungarian Parliament has passed no regulations on regional policy (regional development) which could serve as a stable background for regional development over the course of several regimes, and the government also does not have a reliable strategy in regional policy, the 1993 Decree was an attempt to form the basic principles of regional policy. However, it has failed in this respect, and cannot substitute for the missing regional policy.

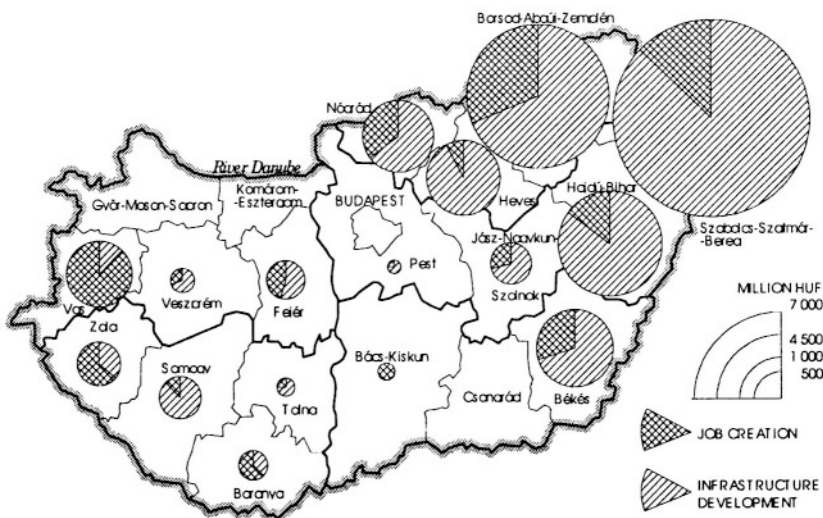


Fig. 2. Distribution of regional development fund subsidies by counties in HUF¹, 1991–1994

Designed by the author on data of Ministry of Environment and Regional Policy

2. The principal targets of regional policy are defective and the main priorities are ambiguous. It can be argued that the development of infrastructure should be considered as a means instead of a goal. In addition, the financial resources are insufficient in lagging regions for infrastructure development to be a primary goal. Despite this, more than 70% of the Regional Development Fund money was spent on long-term infrastructure development projects (e.g. gas, telephone), principally in Northern Hungary and Great Plain (cf. figure 4).

¹ HUF – Hungarian Forint.

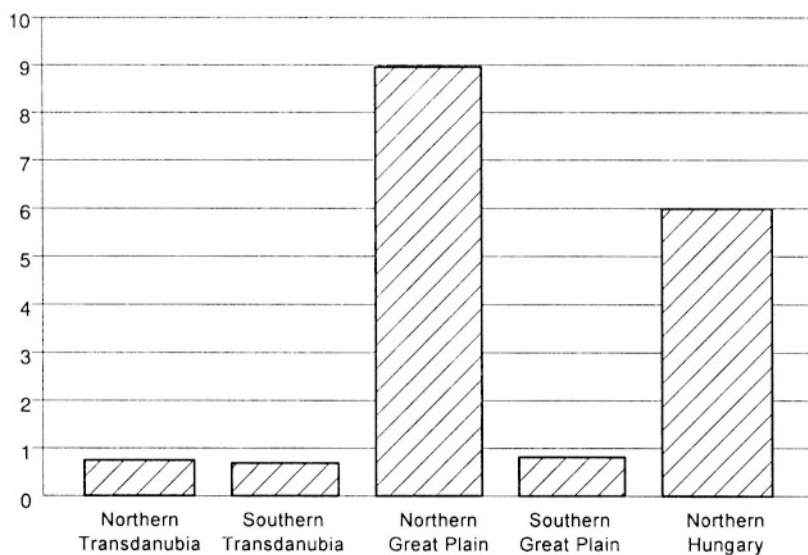


Fig. 3. Distribution of regional development fund subsidies by regions in billion HUF, 1991-1994

Designed by the author on data of Ministry of Environment and Regional Policy

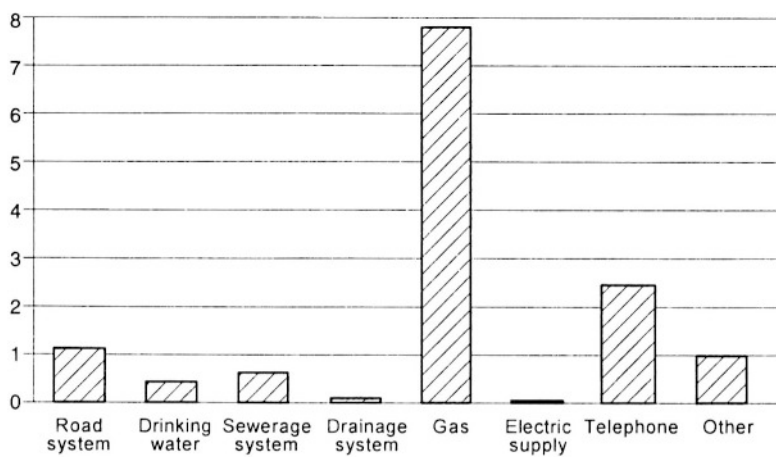


Fig. 4. Infrastructure development expenditures of the Regional Development Fund, 1991-1994, in HUF

Designed by the author on data of Ministry of Environment and Regional Policy

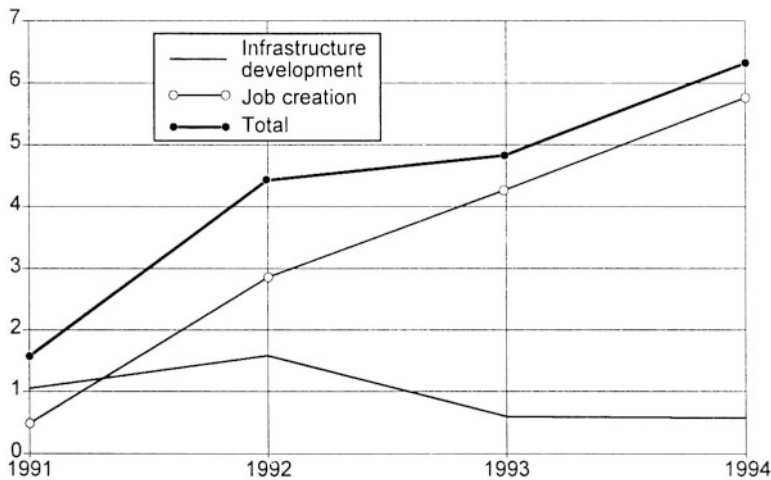


Fig. 5. Regional Development Fund expenditures, billion HUF, 1991–1994

3. Linked to the above point, although the Fund was created for the support of backward areas and areas with serious unemployment, and although the creation of new jobs and the preservation of old ones through modernisation is supposed to receive high priority, in practical terms the support of infrastructure development projects has been much better funded (cf. figure 5). Around 3.5 times more money was allocated for the support of infrastructure development projects than job creation projects. In the current climate, where the management of unemployment problems and economic restructuring are the main issues, this trend cannot be considered as positive.

4. The development of settlement infrastructure by self-governments should not be among the primary targets of regional policy, even if it is aimed at eliminating existing disparities. This should be undertaken within the scheme of task-oriented subsidy system, which has a much greater financial provision.

The current level of finance available to the Regional Development Fund (0.3% of GDP) is insufficient for the realisation of regional policy tasks, particularly considering the increase in the number of assisted areas, and the possibility of the inclusion of depressed cities in the assisted areas map. The volume of financial resources in the Regional Development Fund can only be increased at the expense of other state funds, and priority should be given in the state budget reform and the revision of the state funds to the resources for regional development. It is possible that the resources available to the Regional Development Fund could increase by 20–25%.

The Regional Development Fund should be administered as a decentralised state Fund, and the degree to which the Fund is decentralised should

increase by 60%. The greatest problem facing such an administrative structure is the lack of suitable institution or administrative level to which the Fund could be effectively decentralised. If regional development councils (development organs which integrate the development of some counties) were established, or regional development functions were granted to county governments (in addition to competencies in labour, tourism and environmental development), these would constitute suitable institutions for the administration of a decentralised Fund.

The creation of regional development councils should be facilitated for the development of public administration and the reinforcement of the regional links within the Hungarian economy. These councils, which would consist of representatives from local government, economic organisations and central government, would have a number of functions: participation in the preparation of national macro-regional concepts and strategies for regional development; the integration of small regional development concepts; the determination of the regional priorities of the decentralised Regional Development Fund; and the definition of the principles and types of support system.

The decentralisation of the Fund could be done on the basis of carefully planned norms. The rate of population, living on backward and depressed areas could be a starting point for calculations (Horváth, 1995b).

The centralised element of the Regional Development Fund would be administered by the Ministry of Environment and Regional Policy, and its co-ordination with other sectoral funds would be carried out by the National Council for Regional Development.

The guidelines for support should be based on both general tasks and the particular characteristics of different crisis regions. General tasks could include: inter-settlement infrastructure development; the development of small and medium-sized enterprises; the reinforcement of the tertiary sector; professional training; re-training measures; and the development of business services. In addition, the provision of basic infrastructure and the development of a diversified economic structure based on regional centres (secondary and tertiary activities) should also be considered priorities in very disadvantaged regions.

Key investments in certain sectors should be eligible for regional development subsidies in depressed city regions e.g. those involving innovation, technology advance, processing industries with marketable export products, advanced services which could facilitate international integration, high-level tourism, high R&D components and higher education. Such subsidies may also help to halt the trend of advanced services locating only (or principally) in Budapest. The re-organisation of the economic structure of large cities which formerly enjoyed key industrial roles, should be based on the standards of European regional competition.

The nature and volume of support should be differentiated by regional type. Non-repayable subsidies should play a more important role in backward regions (with rates varying between 20–25%), while various forms of interest subsidy could be used in depressed regions. More detailed analysis is required to determine the distribution of labour force and capital investments within this kind of support system. The regulation of support should include the monitoring of its utilisation and a control and evaluation system.

5. A NEW CHAPTER OF THE REGIONAL POLICY IS BEING STARTED

The regional policy legislation passed at the beginning of the 1990s was an attempt to create the basic principles of regional policy and was necessary to fill the vacuum left by the lack of parliamentary regulation in this area. It could have served as an overall framework, or government strategy for this area, but has not achieved a great degree of success.

It is hoped that the new Law on Regional Development and Physical Planning will tackle these problems to some degree. This Law will provide a new regulatory framework for the operation of regional policy, and is designed to take the European Regional and Spatial Planning Charter and the regional policy principles of the EU (decentralisation, subsidiarity, partnership, programming, transparency and concentration) into account. The proposed Law also contains institutional aspects, and sets out a new division of responsibility for the implementation of regional policy.

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