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Post-socialist Budapest: The invasion of market forces and the response of public leadership

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Introduction

Although Budapest was one of the biggest cities of central Europe throughout the twentieth century, events in history have changed its relative position many times in the local, national, and international contexts. The second largest city of a once much larger country (Austro-Hungarian Monarchy), Budapest acquired a strong dominant role as capital within the much smaller Hungary after 1920, but lost much of its earlier international reputation. The socialist period initially brought severe isolation, which was gradually eased from the 1960s. Following the reforms of the 1980s, the political changes of 1989/1990 opened up a wealth of opportunities for the city to regain its earlier powerful position in the Central European region. As the capital of a small but open, foreign-trade-orientated economy, market-orientated changes in Budapest were quick, and the development of the city soon became dominated by the processes of globalization and EU accession.

From 1989 until the middle of the 1990s, Budapest received far more FDI than other cities in the Central European region (except East Berlin). Consequently, Budapest exemplifies some of the accelerated restructuring processes that are not yet as advanced in many other capital cities of the region. The following analysis of the last 12 years of change in the city also aims at answering the question: to what extent is the liberal, non-interventionist strategy of leadership successful, and what are those factors and reasons that would make a more active public leadership necessary?

The structure of this chapter is as follows: after a very brief historical review, the main factors of transition are discussed, summarizing the political,

institutional, administrative, and economic changes that have occurred. In analysing the trends at the end of the 1990s, particular attention is paid to migration processes and their causes and effects on different parts of the city as well as on the metropolitan region. A detailed account is provided of the new concepts discussed at the municipal level about future urban development, and the relationship of the capital city to the regional level.

The Heritage of the Past: A Historical Overview of City Development

Buda and Pest developed for a long time as separate cities on opposite banks of the Danube. Buda became the diplomatic centre of the country, and in many respects of an even bigger area in the late 1300s. After a "golden age" of one-and-a-half centuries the city lost most of its international importance during the Turkish occupation and also during the reign of the Habsburgs. Real development of the city restarted with the technical-industrial innovations of the nineteenth century. Budapest was established administratively with the unification of Óbuda, Buda, and Pest in 1873. The "Compromise" with Austria in 1867 created favourable circumstances for development, and the half-century from that date until the First World War was the most dynamic period of development in Budapest's history.

In the inter-war period, Budapest became the capital of a country that lost not only the war, but also two-thirds of its former territory. National independence came together with a small-nation status, so Budapest could only very slowly and gradually try to regain its importance on the international scene (Beluszky, 1998: 43).

The 44 years of Soviet dominance and the imposition of the socialist system created at the beginning very unfavourable conditions for Hungary and its capital, which became very isolated from the Western world. From the 1960s onwards, however, Hungarian politics achieved a gradual opening-up of its foreign relations and by the end of the 1980s, Budapest was almost regarded as a "European city" again. Thus, the collapse of socialism and the change of the political and economic system were of relatively less importance for Budapest than for the other capitals of the Central and Eastern European countries. However, it was only after 1989 that Budapest could again become an integral part of the European urban system.¹

The Transition: The Main Factors of Change

The fundamental changes in the political, economic, and institutional conditions for city development in Eastern Europe are discussed in Chapters 3 and 4, so topics specific to the development of Budapest will be analysed in this chapter.

Political and Geo-strategic Change, and Local Government Reforms

The First Decade of the Democratic Political System: Changes at the National and Local Levels

As one of the most important steps of the political transition, the first free parliamentary elections took place in Hungary in April 1990 and were won by the Conservative – Christian Democratic coalition.² The new parliament adopted – as one of its first activities – the Law on Local Governments. This brought very substantial changes at the local level, the previous council system being replaced by independent local governments. As a result, in practice, the previous strong party domination over local politics was dissolved and political power at the local level was passed to locally elected politicians. In October 1990, the first free local elections took place and the liberal parties won in almost all of the bigger cities. In Budapest, 21 out of 22 districts elected a mayor from either the Alliance of Free Democrats or the Federation of Young Democrats. Consequently, the leadership of the Budapest municipal government has also become liberal in opposition to the national government.

After the first four-year term, the second free elections took place in 1994. The leading coalitions changed at both the national and local levels; the parliament became dominated by the Socialist party, which formed a coalition with the Alliance of Free Democrats. The same coalition was formed also at the Budapest level, and there the previous mayor of the municipality was re-elected (this was the first time that the mayors had been elected directly). In 1998, in the third free elections, nothing changed in Budapest (both the mayor and leading coalition were re-elected) but at the national level a right-wing coalition took over power from the socialist-liberal coalition. Thus Budapest – with unchanged local politicians – came for the second time into opposition with the national government (as it had been between 1990 and 1994). Finally, in 2002 the situation of 1994–1998 returned: the still unchanged Budapest coalition (with Mayor Demszky starting his fourth term) now has a national government consisting of the same parties. This is the second period of potentially friendly relations with the central government.

The Law on Local Governments: New Administrative Structure

The Two-tier Administrative Structure of Budapest

In 1950, a two-tier administrative structure with elected municipal and district councils was introduced in Budapest, parallel to the creation of a “greater Budapest” (through the annexation of surrounding settlements). The system of municipal and district councils, however, did not function in the socialist period as a real two-tier system, as there were no real roles and rights given to the

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districts; the important decisions were taken at the municipal and in many cases even the national level.

The 1990 Law on Local Governments reinforced the previous two-tier administrative structure of Budapest. The municipal government and the 22 (later 23) district governments were all considered to be local governments, having their assemblies of elected politicians and their mayors. This highly complicated system had at least two in-built conflicts: the first between the municipality and the districts, the second between the mayor and the assembly (since 1994 mayors were elected directly and it happened frequently that they did not come from the party that was strongest in the local assembly).

The 1990 Law delegated very important functions to the lower district level (all local, neighbourhood public services), while the municipality became the owner of the public utilities and assumed the tasks related to the whole or a large part of the capital (see the detailed description in Bird, Ebel, and Wallich, 1995: 122). The municipality and the districts also became independent in an economic sense, as they acquired their own assets and the right to establish their budgets independently.

The two-tier administrative structure of the municipality and the districts functioned with great difficulties in the first years. The administrative system contained elements of at least three different models simultaneously: it was centralized, as the big infrastructure networks and public works became municipality-owned; it was federal, as the allocation of normative state subsidies between the municipality and the districts was subject to negotiations; and finally, it was also decentralized, as the districts obtained substantial independence (Perger, 1999: 197). It is no wonder that there were ongoing debates between the actors and several modifications to the system were necessary:

1990–1994: the period of equal rights in municipal–district relations meant that the two actors could successfully block each other (e.g. the municipality had zoning rights, while the district issued building permissions, so each actor had a strong tool to stop the ideas of the other).

1994–1998: a modification of the Law on Local Governments gave the municipal level some more rights, especially in planning for the whole city.

1998: new ideas emerged to increase the role of the districts, especially in the allocation of central budget transfers (e.g. the allocation of shared financial means requires the approval of the majority of the districts as well as the municipality).

The decentralized, fragmented character of the administrative system is even more true when taking local elections into account. The “electoral map” of Budapest shows clearly how strong a “demarcation line” the Danube is, since the right-wing parties dominate richer Buda districts, while the majority of the more problematic Pest areas belong to the centre–left wing coalition (since 2002, however, even some of the Buda districts have come under centre/left control.)

Budapest and its Agglomeration

The structure of the Budapest agglomeration can be interpreted as a series of concentric circles or sequential rings (Schuchmann, 1992: 1):

- the earlier “Little Budapest,” i.e. the city within its border until 1950;
- Budapest within its current administrative border (together with the settlements attached in 1950, which could be called “the inner agglomeration zone”);
- the suburban area around Budapest with very intensive connections to the city: a zone with 600,000 residents living in 78 suburban settlements defined since the mid-1990s as the “agglomeration zone”; and
- the outer ring, a larger surrounding area, which acts as “a protecting zone” in many respects.

Figure 9.1 shows first three concentric rings or zones, while the last and biggest unit is Budapest and the whole of Pest County (together called the Central Hungarian Region). In addition to the ring-based structure, a radial structure can also be observed, which means that the agglomeration can be divided into sectors and that it also extends the boundaries of the rings out along the main transportation routes (Pestterv – MTA RKK, 1995: 7).

Previously, the “suburban belt” included 44 settlements. There were no empirical criteria in determining the borders of the agglomeration, because this group of settlements was not “institutionalized.” The Act on Local Governments of 1990–1991 created a decentralized administration system, concentrating very much on the local government level and not at all on the “middle level” of county or regional functions. Accordingly, no regulation was passed on competencies related to urban development or agglomeration relations around big cities.

Changes concerning the definition and institutionalization of the agglomeration came only in the second half of the 1990s. On the one hand, the definition of the Budapest agglomeration was revised, and a bigger settlement group with 78 settlements was officially declared – for statistical purposes only – as an agglomeration. On the other hand, the Act on Urban Development was approved, establishing county development councils and regional development councils in the country. One of those was the Budapest Agglomeration Development Council, including Budapest and its agglomeration (with 2.6 million inhabitants).

Despite the official acceptance of the existence of a “Budapest agglomeration” or metropolitan region and the establishment of the Budapest Agglomeration Development Council, the system around Budapest remained fragmented and relations between the city and its surroundings remain highly problematic. As the rights of the county self-governments were minimized in 1990, Pest County had practically no power to influence any of the decisions made by the settlements. Thus, the surrounding area can be regarded as a fragmented system: individual settlements are weak as regards any serious negotiations with Budapest, there is no formalized “agglomeration” structure, and not even the county can (or wants) to represent the interests of the

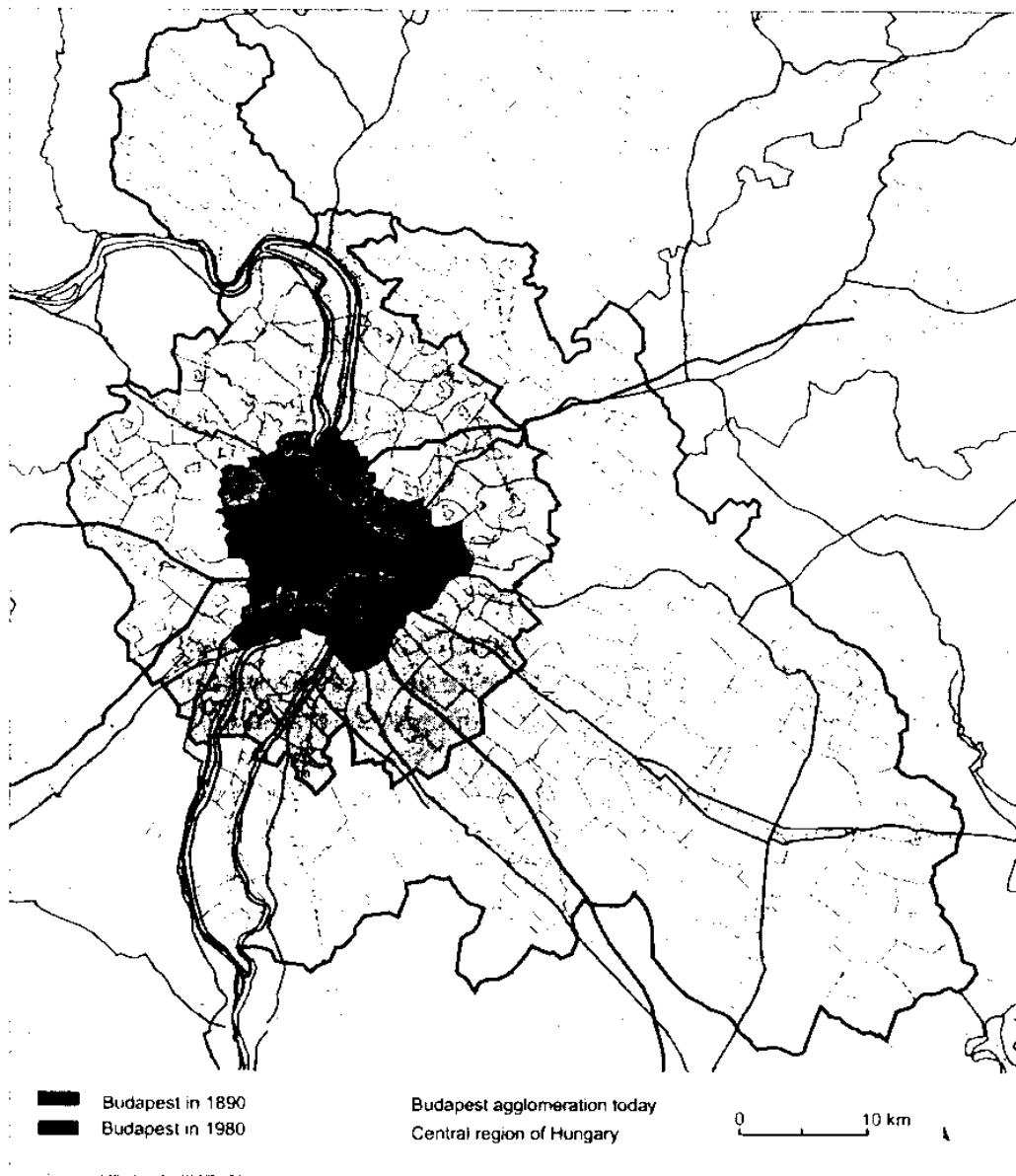


Fig. 9.1 Administrative structure of the Budapest agglomeration.

agglomeration (Perger, 1999: 198). On the other hand, the settlements around Budapest are very strong, as no one can influence in any way their individual development decisions.

To sum up, the new administrative structure of 1990 favoured the local governments as the lowest level of the settlement hierarchy, and gave much less rights to the middle level (almost nothing to the counties, and only restricted rights to the municipal level in Budapest). This made coordination above the district level very difficult, and coordination between Budapest and the neighbouring settlements became totally impossible.

Municipal Finance Issues

The Hungarian municipal finance system was already reformed four years before the political changes: in 1986 the "expenditure regulation" system (in which expenditures had to be negotiated with the National Planning Office and the accepted expenditures got automatic financing from the budget) was replaced with a much more democratic "resource regulation" system (in which the resource levels of the local governments were regulated and it was up to the local level how to spend the accepted resources).

Decisions of major importance to the creation of more independent local governments at the beginning of the 1990s included the Property Transfer Act, transferring the ownership of previously state-owned retail and commercial units, vacant land, and public rental housing stock to the local level; and the Law on Local Taxes, which gave local governments the right to impose certain taxes. Despite legal efforts to increase the possibilities for raising local revenues (Bird, Ebel, and Wallich, 1995: 93), in the early 1990s central budget sources dominated the revenue side. It was only in the second half of the decade that locally sourced revenues exceeded central resources, because of a dynamic increase in the business turnover tax (i.e. local tax with the highest importance for the local governments).

Due to the difficulties of the two-tier administrative system, in which both levels were entitled to own some revenues, a special construction of financial resource allocation between the municipality and districts has been introduced in Budapest. This system, aiming to create more equal financial opportunities for the districts to perform the same tasks, is subject each year to lengthy and difficult political debate between the districts and the municipality.

The allocation of central budget resources has taken a definite change in the 1990s: compared to the previous period, smaller settlements have received more support. This had important consequences in the suburban area around Budapest. Local governments in Pest County completed major development projects during the period of 1990–1994. According to an empirical survey (Pestterv – MTA RKK, 1995: 78), half the local governments launched five or more investment projects (gas and mains water establishments, sewage, gymnasiums, road construction, telephones etc.). The majority of development was related to infrastructure and two-thirds of the settlements chose debt financing to complete the projects. At the same time, one-quarter of the local governments could only manage their operations with the help of loans. The survey indicated that the ongoing burdens of these development projects launched during the period of 1990–1994 meant that approximately one-quarter of the settlements did not plan any further development for the following four years. Nevertheless, approximately 50 per cent of the settlements came up with new ideas, too, besides infrastructure projects. Settlement reorganization and local economic development (creating industrial sites, shopping centre construction etc.), crucial for the purpose of attracting entrepreneurs, began to play a very important role among these other objectives.

Economic Reforms: Patterns of Change

Economic Development in the City and its Metropolitan Region

Before the changes to the political system, business relations between Budapest and its surrounding area moved primarily in one direction. During the industrialization of the country in the 1960s and 1970s, administrative regulations prohibited the establishment of industrial plants, even sites of larger companies, within a 50-km radius around Budapest. Thus, the settlements of the agglomeration became mostly related to the industry of Budapest through commuting (Pestterv – MTA RKK, 1995: 7) and the proportion of those commuting to Budapest has reached 61 per cent within the actively employed population of the agglomeration.

In 1990, the Budapest economy provided more than 1 million jobs, 82 per cent of which were filled by people living in Budapest and 18 per cent by commuters. Nevertheless, between 1970 and 1990 the number of Budapest jobs decreased by 20 per cent, reducing the proportion of all Hungarian jobs located in the capital from 26 to 23 per cent (Barta, 1998: 204). The decrease in the number of jobs continued also in the 1990s (1994: 876,000 jobs in Budapest; 1996: 779,000 jobs).

Regarding the restructuring of the job market, the crisis in Budapest's traditional industries and the development of the new economic structure are the most important factors in the relationship between Budapest and the agglomeration (Pestterv – MTA RKK, 1995: 10).

The crisis in the traditional Budapest industries can be illustrated with the following data: between 1983 and 1993, the number of industrial jobs in Budapest fell from 347,000 to 128,000. Obviously, this also involved a decrease in opportunities for commuters (between 1990 and 1992, the number of people commuting to Budapest decreased by 13–15 per cent). The crisis had a further direct impact on those settlements where Budapest companies had a site (primarily larger settlements outside the close agglomeration, such as Vác, Cegléd, and Nagykőrös), and on the settlements where additional cooperative activities, contracted by Budapest industry, developed.

Private businesses could be created as early as at the beginning of the 1980s (in the first few years only small enterprises were allowed, but from 1985 onwards the upper limit for the number of employees of a private firm was increased to 300). The number of individual businesses grew faster in the agglomeration; this was an advance sign that a new, cooperation-based type of work distribution was developing, replacing the former one-sided labour attraction.

The new economic structure has developed faster in Budapest and its surrounding area than in other parts of the country. Consequently, the local economy became stronger in settlements surrounding Budapest relatively fast. This provided jobs for many of those who were previously commuting to Budapest. The degree to which the former state-owned and cooperative plants and additional industrial structures were transformed was also an important

issue. These structures represented the most important opportunity for the initiation of new private businesses, since very few Hungarian small enterprises had sufficient equity for green-field investments, typical only for enterprises owned by foreigners.

In settlements where the former industries were revitalized in the form of private businesses and even new, green-field jobs were created, the one-sided relationship between Budapest and the agglomeration has ceased. The former direct controlling role of Budapest is becoming more and more indirect and is being replaced by the capital, money, and information market.

Together with privatization, and partly related to it, the influx of foreign investments was the most important driving force for economic change. By October 1999, about US\$20.5 billion of FDI came into the country, more than half of it to Budapest. A substantial part of this investment came as machinery, which contributes to the fact that the efficiency of this region is higher.

It is possible to estimate the share of public versus private investments in city development. Total investment in the city can be estimated to be around 600 billion HUF (US\$2.4 billion) per year. The budget of Budapest, municipality and districts together, is around 400 billion HUF per year, i.e. US\$1.6 billion at the end of the 1990s, of which – in many years' average – 15–20 per cent (US\$240–320 billion) is designated for development purposes. If the investment of other public bodies (central government etc.) was of similar magnitude, the share of the private sector in total investment could be estimated as 70–85 per cent. Taking another source of information, according to official statistics (*Statistical Yearbook of 1998*), 13 per cent of total investment came from the central government, 6 per cent from the local governments, and 81 per cent from the private sector.

The data in Table 9.1 indicate that Budapest and its surrounding area benefited significantly from foreign investments. Considering the number of companies with foreign investment and the registered capital amount, Budapest has a 54 per cent respectively 53 per cent share (while Pest County has a 7 per cent respectively 14 per cent share) of the national data. This shows that in the 1990s the highest number of companies with foreign investment operated in Budapest and Pest County and the largest amount of foreign working capital was also invested there. However, the data indicating large concentrations need to be approached with care because they are all based on the records of company head offices. Practice shows that in many cases the sites in the countryside are large because the trans-national companies place their routine manufacturing activities in the countryside even if their head offices are established in Budapest, and therefore all their activities are statistically recorded in the city (Barta, 1992: 1).

After the dynamic rise in the first two to three years in the number of companies with foreign ownership, this number stabilized; the amount of equity capital, however, continued to increase, as a result of the efforts of foreign owners to increase their shares in and the capital of their ventures.

Table 9.1 The impact of FDI in Budapest and its agglomeration: the number and equity capital of the foreign-owned companies

	Number of companies				Equity capital (in million US\$)			
	Budapest	Pest County	Hungary	The share of Budapest in the country (%)	Budapest	Pest county	Hungary	The share of Budapest in the county (%)
1992	8,907	1,081	17,182	51.8	5,055	526	8,913	56.7
1993	10,953	1,312	20,999	52.2	7,882	647	12,100	65.0
1994	12,838	1,461	23,557	54.5	9,142	712	13,574	67.3
1995	12,150	1,550	25,096	48.4	8,812	1,169	15,825	55.6
1996	12,923	1,638	26,130	49.5	8,149	1,042	14,930	54.6
1997	13,349	1,691	26,529	50.3	8,588	1,275	15,432	55.6
1998	13,410	1,720	25,992	51.6	7,807	1,162	13,800	56.6
1999	13,964	1,881	26,433	52.8	7,600	1,206	13,428	56.7
2000	14,322	2,007	26,645	53.7	7,208	1,570	12,783	56.4
2001*	13,584	1,864	25,365	53.6	6,608	1,716	12,380	53.4

Note: *Preliminary data.

Source: *Statistical Yearbook of Hungary*.

In 1991, only around 15 per cent of the companies with foreign capital were owned 100 per cent by foreigners. Recently this share increased to 60 per cent, and in another 33 per cent of the companies foreigners are in a majority ownership position (Barta, 2000).

The tendencies of the 1990s show that besides Budapest, the economy of Pest County has also become very active and there are a lot of new businesses. "Yet these business projects do not promote the modernisation of the economic structure of the county, they rather help to maintain the former economic structure (for example companies do not need many specialists with higher degrees, the largest demand exists for trained young blue-collar workforce)." (Pestterv – MTA RKK, 1995: 63) The significant differences in investment patterns between Budapest and Pest County are shown in Tables 9.2 and 9.3. In Budapest, the newly established foreign-owned companies start their activities mainly in the service sectors: financial services, commercial activities, and the real-estate business (13–15 per cent each). In the case of Pest County, manufacturing is the leading edge of investment (here most of the investments come from Hungarian-owned companies – partly MOL, the biggest oil company in Hungary – while in the case of Budapest, most of the investors are largely foreign-owned). The difference is very substantial: the share of service-related investments is around 60–70 per cent in Budapest, while only around 20–30 per cent in Pest County.

Table 9.2 The share of the different sectors in investment of the partly or fully foreign-owned companies in Budapest (total amount of investment in million US\$)

	1992	1993	1994	1995	1996	1998	1999	2000	2001
Agriculture, hunting, forestry	—	—	—	—	—	0.2	—	—	—
Mining and quarrying	—	—	—	—	—	—	—	—	—
Manufacturing	24.5	21.0	28.7	24.8	19.0	19.3	23.9	22.7	30
Electricity, gas, sewage, and water supply	—	0.2	—	4.8	4.7	7.2	8.2	8.8	11.9
Construction	2.1	1.6	3.0	10.0	16.8	2.4	2.1	1.5	1
Wholesale and retail trade	14.9	6.1	10.7	6.0	10.6	9.4	12.3	13.6	15
Hotels and restaurants	18.7	1.6	1.5	1.6	2.0	2.1	1.7	2.8	2.6
Transport, storage, and telecommunications	4.0	45.4	36.9	31.5	33.9	23.6	25	29.4	27.8
Financial intermediation	16.9	11.8	8.9	16.2	9.5	16.0	12.3	7	n/a
Real estate, renting, and business activities	17.6	11.5	9.5	4.4	2.8	19.0	14.1	13.7	11.2
Public administration, defence, and compulsory social security	—	—	—	—	—	—	—	—	—
Education	—	—	—	—	—	—	—	—	—
Health and social work	—	—	—	—	—	0.1	—	—	0.2
Other community, social, and personal services	0.8	0.3	—	—	—	0.3	0.4	0.5	0.3
	100	100	100	100	100	100	100	100	100
Total	435	884	1,014	1,098	1,139	1,240	1,114	1,089	860

Note: No data are available for 1997.

Source: Statistical Yearbook of Budapest.

Thus, we can conclude that institutional and service supply relations between Budapest and the settlements of the agglomeration have loosened compared to the former rigid limitations. At the same time, “the intermediary and higher level health, educational and cultural institutions are still concentrated in Budapest. Therefore Budapest has remained as attractive as before in that aspect” (Pestterv – MTA RKK, 1995: 11).

Economic Development by Sectors

Industry

This sector has substantially decreased in size. Only those parts of industry that have high efficiency and low territorial demand – e.g. chemistry and some forms of machinery – have developed. Industry has reduced significantly from the beginning of the 1990s, as evidenced by falling employee numbers and amounts of industrial territory. The privatization process could explain the concentration of multinational industrial firms in Budapest. Since a large share of the former

Table 9.3 Share of different sectors in investment of partly or fully foreign-owned companies in Pest County (total amount of investment in million US\$)

	1992	1993	1994	1995	1996	1998	1999	2000	2001
Agriculture, hunting, forestry	—	0.5	0.2	0.2	0.48	0.5	0.6	0.8	0.4
Mining and quarrying	2.6	4.2	1.7	0.6	0.4	1	—	—	—
Manufacturing	66.5	32.9	63.1	49	45.6	55.8	79	60	68
Electricity, gas, sewage, and water supply	—	—	0.1	30	23.5	10.4	6.5	7.2	10.8
Construction	5.5	0.4	1.2	0.6	2.7	8.5	—	—	—
Wholesale and retail trade	10	6	1	3.7	6	11.4	5	16	9.2
Hotels and restaurants	—	—	—	0.5	—	—	—	—	—
Transport, storage, and telecommunications	0.2	38.9	15	12.4	12.6	10.6	7.3	14.4	9.1
Financial intermediation	5.9	1.6	0.6	0.9	0.7	0.4	—	—	—
Real estate, renting, and business activities	9	15.2	7	1.9	7.5	1	—	—	1.6
Public administration, defence, and compulsory social security	—	—	—	—	—	—	—	—	—
Education	—	—	—	—	—	—	—	—	—
Health and social work	—	—	—	—	—	—	—	—	—
Other community, social, and personal services	—	—	—	—	—	—	—	—	—
	100	100	100	100	100	100	100	100	100
Total	56	92	226	334	224	476	484	468	467

Note: No data are available for 1997.

Source: *Statistical Yearbook of Pest County*.

socialist industries was concentrated in Budapest, the privatized industries were also located there. But after the privatization process lessened, since 1997–1998, the new green-field investments have been concentrated mainly in the north-western part of Hungary.

Services

In Hungary, the privatization of banks was carried out relatively quickly, and some foreign-owned new banks also became active. The share of foreign ownership of Hungarian banks exceeded 50 per cent by 1997, and this is an important factor in the establishment of modern banking technologies that were totally absent previously. Other conditions are also improving (stable macro-economic environment, more and more multi- and trans-national companies present, improving communication and transport infrastructure, still low price of manpower, stable legal system). Still, the size of the Hungarian economy and financial market is small, in itself not enough of a foundation for Budapest to

become a regional financial centre, so the expectations of some Hungarian politicians in this regard might be too ambitious. It is not even sure that the dynamism and direction of the development of the Eastern European region will require quick intensification of financial services – and even if this occurs, new technical development in the financial sector will most probably lead to a situation where most of the functions of a regional financial centre will be taken over by the existing Western centres, and the Central European metropolises will only play the role of sub-centres, specialized for some selected services (Bellon, 1998: 66).

Commerce

The main tendencies in the commercial sector, especially regarding offices and shopping centres, are analysed in Chapters 3 and 6, where substantial examples are given from Budapest. Analysing the development of the retail sector, the Budapest case has been classified as an example of the “uncontrolled invasion of retail chains.” It is the retail sector where foreign investments are the quickest and the highest – at least in the first several years of transition (the telecommunications sector, banking, and real-estate sectors follow with a small delay – see Nagy, 1998: 102). Foreign investments were concentrated initially in the biggest urban centres – by 1996, 91 per cent of new foreign investment into the Hungarian retail sector was directed to privatized and green-field projects in Budapest and Pest County. This first, concentrated wave of investments increased temporarily the share of the capital city: Budapest (having a share of 19 per cent of the Hungarian population) reached 62.5 per cent of the Hungarian total in the turnover of commercial units in 1997. Since then the level of this concentration has decreased, and foreign investments have started to be spread out to the second layer of Hungarian settlements, the medium-sized cities.

According to an analysis of changes in the retail sector (Baross, 1999), there has been a huge transformation since the socialist era, when commerce was concentrated in the local centres of new housing estates. In the 1990s, the two extremes of the spectrum of commerce were developing the fastest: little private shops in the local centres and side streets of densely populated living areas, and the new products of foreign investment – the big hypermarkets, mega-shops, shopping centres etc., in specialized “big boxes”. Hungarian retail chains were quickly privatized to foreign investors. As a result of this concentrated activity of foreign chains, the share of shopping centres within overall retail activity reached 16 per cent by 2000, a higher share than that of Greece or Germany (see Baross, 1999: V-5).

Real Estate

As mentioned in Chapter 3, the socialist period can be described as planned city development, in which the state was the biggest – and almost the only – investor. In the transition period the municipalities had the ruling power, but in a much more limited sense, as it was the private sector which decided about most of the

investments. The new market mechanisms brought up new phenomena, like quick suburbanization and "over-construction."

In Budapest, the most dynamic parts of the real-estate sector are office and commercial investments. After a short period of internal restructuring (converting flats into offices) at the beginning of the 1990s, the office market became very active and there has been an annual construction of about 50,000–60,000 (in some years even 100,000) sq.m since then. As a result of this dynamic enlargement, the office market is by now close to being full in Budapest (about 18 per cent of the stock was empty in the first half of 1999). In the last 10 years, not only the inner city but also some parts of the "transitional belt" with good public transportation have become target areas for office investments. New phenomena, like office parks – "Graphisoft" in District III – or even technopark-technopolis, higher education, and offices together – like "Infopark" in District IX – are emerging.

Besides the new office buildings there are new shopping centres, which mark the new period of development of Budapest. Between 1990 and 1999, almost 500,000 sq.m of new retail space was built, 76 per cent within the city, the rest in the agglomeration belt.

Much less dynamism can be observed in the sector of industrial real estate. Many of the big premises of the former socialist industry have been shut down, occupying huge areas in the transitional belt of the city; some 4–8 km form the CBD area. It is rare that foreign investors take on the burdens of brown-field restructuring, including the problems of contaminated soil – their usual method is to invest in green-field areas around the city, making use of the discounts and tax-exemptions offered by the agglomeration settlements. Especially dynamic is the development of the south-western agglomeration area of Budapest, where the motorways from the west and from Balaton unite to create the "Western Gate" of the capital.

Since 2000, the new area of dynamism has been housing: due to new regulations and subsidies, private banks have become interested in lending, and competition between banks has even broken out.

Favourable Economic Conditions

Budapest was very successful in the last decade in attracting foreign investments. The majority of capital investment projects were completed within the town boundaries, especially the investments of the service and office sectors were significant.

According to a recent research Budapest was the third on the list of European cities – after London and Stockholm – when surveying "competitiveness/business climate," i.e. the conditions for economic investments. The main factors of attractiveness of Budapest, besides the stable political and macro-economic environment, were the low price of labour and the improving real-estate conditions.

Housing Policy and the Built Environment

Transition with Massive Privatization of Housing

In Hungary since 1952, the year of nationalization, the housing stock of bigger cities was dominated by the public rental sector, although the private (owner-occupied) sector was always substantial in the form of single-family housing and new multi-family cooperatives and condominiums. Up until 1990, there was a centrally regulated housing policy determining the rent level for the whole country, and financial means for new construction and renovations were allocated from the central budget through planning decisions.

In the transition period, all these conditions changed. The public stock was transferred to the local governments, and with this, rights and responsibilities also became a local matter. Between 1990 and 1993, there was practically no central-level housing policy (responsibility for housing was split between six ministries) and there were also uncertainties about the role that the local governments should play in housing policy. The new owners of the public rental stock initially found themselves in a contradictory situation, as legal regulations were unclear about the rights of landlords (e.g. one of the laws would have allowed a rent increase, while another allowed freezing of public rents).

Finally, a Rental Housing Act was approved by parliament in 1993, which – in its final form – introduced the right to buy for tenants in public rental units. The responsibility for housing was given to the Ministry of Finance (since then this responsibility has moved again, to the Ministry of Economy, and lately to the Ministry of the Interior). Following the period of 1994–1995, when a moratorium on rent increases and the right to buy regulations showed a strong central influence, local governments finally became the main actors of housing policy. Since 1996, local governments have practically been free to decide on their local housing policy. Not even central budget transfers determine their decisions, as these transfers are not tied to purposes – normative grants according to objective criteria (e.g. the number of residents between the age of 18 and 35) for housing can freely be used at the local level for any other purposes.

By the time local governments got power over local housing policy, however, the structure of the local housing markets had changed substantially, and the real possibilities for a publicly led local housing policy became very limited. As a result of comprehensive housing privatization, the share of the public rental sector dropped in Budapest from over 60 to below 10 per cent of the housing stock. Most rented dwellings were sold for 15 per cent of their market value, this being the selling price of any public dwelling that had not been extensively modernized during the previous 15 years. Moreover, tenants had only to pay 60 per cent of the discounted sales price if they paid in cash. The other option was to pay by instalment: in this case 10 per cent of the sales price had to be paid in cash, and the remainder in monthly instalments over 35 years at a low fixed interest rate (the interest rate was set at 3 per cent for the whole repayment

period, even though inflation was between 20 and 30 per cent from the end of the 1980s).

According to the regulations, privatized apartments could be resold or rented out by the owner immediately following purchase, without any restrictions (except for the obligation to repay the instalments in the case of properties resold within five years). Moreover, there was no restriction on turning the apartments into offices or shops, and these changes did not even have to be reported to the local authority.

The main push for this “give-away privatization” (see the debate on the evaluation of this policy in Alm and Buckley, 1992; Hegedüs et al., 1993) came, on the one hand, from the local governments, and on the other, from the main beneficiaries, the families living in the best public rental flats. As a result, the public rental sector practically disappeared from the housing stock, leaving much less opportunities for local governments to fulfil a social function in housing policy.³

Housing construction and infrastructure

After the transfer of public rental housing to the local level, all direct state subsidies for the housing sector have been withdrawn. As a consequence, and also due to high inflation, new housing construction decreased to historically low figures in most parts of the country. New construction became much greater in the agglomeration than in Budapest and, in contrast with Budapest, even increased around the middle of the 1990s (see Table 9.4). In an agglomeration of 600,000 people, the number of newly constructed homes was almost identical to the figure in Budapest, where the population was above 1.8 million. Around 2001–2002 the situation changed again – due to favourable government subsidies and steeply growing bank lending, new construction increased, and this increase was more substantial in Budapest than in any other part of the country.

The settlements of the agglomeration had, at the turn of the 1980s and 1990s, rather old-fashioned infrastructure, the standard of which was sometimes even lower than the national average. However, many of the agglomeration settlements managed to catch up within only five years. With state subsidies, using their own resources, and in most cases with contributions from the population, the local governments have completed large infrastructure projects. Between 1991 and 1995, primarily those utility investments were completed which also involved central budgetary subsidies and for which the consent of the population was easiest to get. Typically, such projects included the construction of gas mains, because the population had an interest in contributing financially

Table 9.4 Housing construction per 1,000 residents

	1990	1995	1998	1999	2000	2001
Budapest	3.3	1.8	1.6	1.6	1.7	2.5
Agglomeration	5.6	6.5	5.0	4.5	5.3	5.1

Source: CSO Pest County Statistical Year Book.

(cheaper heating). Parallel with the large volume of gas projects, but at a slower pace, water mains were extended, and costly sewage network extensions followed. Today, in numerous settlements around Budapest, basic infrastructure services are at the same level as those of Budapest.

The Condition of the Built and the Natural Environment

The housing stock of Budapest has serious deficiencies. One-quarter of flats are to be found in buildings that are more than 80 years old and have never been substantially renovated. The majority of the 200,000 flats in these buildings have a low comfort level: either the bathroom or the toilet, or both, are missing. The concentration of these low-quality flats is much higher in Budapest than the national average.

Besides housing, the environment also faces big problems in the capital city. The quality of air, the level of noise, and the intensity of car traffic create much more unpleasant circumstances in Budapest than in other parts of the country. Only the quality of air has improved a little in the last decade, due to the bankruptcy of the most polluting big state enterprises.

In contrast to the growing problems of Budapest, the situation of the surrounding settlements improved substantially in the 1990s. The existence of the full scale of services, together with the more pleasant residential environment, represents a substantial attraction to those planning to change their residence, especially the inhabitants of Budapest.

Under such circumstances, it is no wonder that from the mid-1990s the previously positive migration balance of Budapest turned into a negative. The loss of 10,000–15,000 mainly middle- and upper-class population per year not only means lower PIT tax revenues and growing expenditures (due to increasing traffic and subsidies for services used by commuters) for the local government but also leads to further deterioration of the more densely built parts of the city from where out-migration is the highest.

Social Cohesion

The social conditions of the inhabitants of Budapest are relatively good compared to that of the rest of the country. Notwithstanding the share of homeless people, which is currently the highest in the country, various social indices are more favourable in the capital: unemployment is half as high in Budapest than in other parts of the country, and the same applies to the share of people living below subsistence level; the share of disabled and permanently ill persons is also below the national average.

Even so, the inhabitants of Budapest list social problems as being among the gravest problems of the city. The main reason for this is not the absolute level of these problems, but rather their uneven spatial distribution across the city. Within the city there are very significant differences among the districts with respect to

the social position of the inhabitants; in some districts, social indicators are especially bad:

- the difference in life expectancy between the "best" and the "worst" district of Budapest is six years – this means that the inhabitants of Buda District II are on the level of Belgium, while the inhabitants of Pest District X are on the level of Syria;
- there is a three times difference in the share of families receiving continuous social benefit and a four times difference in the share of families receiving unemployment benefit between the "better" and "worse" districts;
- the share of flats without comfort is 17 per cent in the group of "better" districts, while above 40 per cent in the group of "worse" districts.

Differentiation in the social position of inhabitants, as well as in the social subsidy potential of districts, is growing fast. Moreover, those districts where most people need social benefits are in the worst financial situation. As a consequence, the likelihood of residents of Budapest getting social benefits depends more and more on which district they inhabit.

The social protection system underwent significant changes in the course of the 1990s in Budapest. Some of its elements were developed rapidly (e.g. care for homeless people). At the same time, however, the district-level fragmentation of the social care system creates growing problems. The opportunities of the municipal level are very much constrained, both from above (the national level) and from below (the districts).

Processes and Tendencies at the End of the 1990s

Directions and Tendencies in the Migration of Population

The population of Hungary has been decreasing since 1980. Similar processes have taken place in Budapest too. Compared to the rest of the country, the decline in population is much faster in Budapest, amounting to 8 per cent in seven years as opposed to the 2 per cent national decline (see Table 9.5). However, the population of the agglomeration is increasing (9 per cent growth for the same period). Pest County, which covers the entire agglomeration zone (this represents two-thirds of the population of the county), is the only medium-level unit in the country, the population of which has grown for the last few years.

The natural decline in Budapest's population began as early as the beginning of the 1970s and was related to the ageing of the population. Even so, the number of inhabitants of Budapest was constantly growing until the end of the 1970s, due to the strong positive balance of migration. However, since 1993 the consolidated index of changes of permanent and temporary residence between Budapest and the rest of the country has become negative for Budapest (the balance of change of permanent residence has been negative already since 1991).

Both migration into and from the capital city fell until 1994, but the decline was larger in the case of migration to Budapest. In 1995, however, there was a large increase in the number of people out-migrating from Budapest.

The analysis of the balance shows that the positive migration balance was mainly the result of temporary migration, to the extent that in 1991 and 1992 the temporary migration balance was able to offset the negative permanent migration balance and even result in a positive balance in consolidation. The balance of temporary migration was negative for the first time in 1995. Of the two measures of migration it is permanent migration that is more important, because this reflects the impact of long-term decisions. However, the various sub-types of temporary migration could also be important for the assessment of future migration.

The negative migration balance of Budapest applies almost exclusively to Pest County (in 1995 nearly 28,000 people moved out from Budapest into Pest County and only 15,000 replaced them from the county).⁴ Since 1993, however, more and more counties have become "net receiving counties" compared to Budapest. The extent of out-migration from Budapest is not yet significant in the case of the other counties, but the tendencies definitely deserve attention.

Out-migration – where to? More detailed data indicate that the close agglomeration has lost its former hegemony considering the scope of migration difference.⁵ During the last two years the dynamism of settlements was the highest in the region situated between the close and extended agglomeration, and even the more extensive zone has by now reached the growth rate of the close agglomeration (Table 9.6).

Since the change in the political system, differences have increased between the more and less dynamic parts of the agglomeration. The group of settlements that are able, to a certain extent, to share the dynamism of Budapest through its multi-functional, bilateral, and intensive relations, involves 32–36 settlements. It may be assumed that this close and intensive agglomeration represents also a potential location for trading and service activities. However, the various housing functions (e.g. separate luxury residential parks) are better suited to settlements that offer adequate size and quality land, and they are not necessarily included in this group of the closest and most dynamic settlements.

Out-migration – where from? Until 1992–1993, the inner districts and the best Buda green-belt districts, with rapidly rising property prices, were the main "issuing/sending districts" (higher out- than in-migration) and the outer districts were still "receiving districts" (higher in- than out-migration). During the last few years, however, trends have changed significantly, and by now the migration balance has fallen into the negative in all parts of the city, without exceptions.

Summarizing the migration trends, it may be concluded that, following a decline of a few years, migration of population has increased again in Budapest and the surrounding area. Budapest's population will, due to migration, decline by 15,000–20,000 residents a year (in addition to natural decline) in the next few

Table 9.5 Population in Hungary, Budapest and its agglomeration, and other towns, 1993–2000*

	Hungary		Towns excluding Budapest		Budapest		Budapest agglomeration zone (78 settlements)	
	(000)	Change %	(000)	Change %	(000)	Change %	(000)	Change %
1993	10,310		4,701.4		2,008.5		579.5	
1994	10,277	0.3	4,697.8	−0.1	1,995.7	−0.6	585.1	+1.0
1995**	10,246	−0.3	4,662.8	−0.7	1,930.0*	−3.3	588.8	+0.6
1996	10,212	−0.3	4,650.8	−0.25	1,906.8	−1.2	598.1	+1.6
1997	10,174	−0.3	4,636.7	−0.3	1,886.2	−1.1	607.9	+1.6
1998	10,135	−0.4	4,617.5	−0.4	1,861.4	−1.3	618.3	+1.7
1999	10,092	−0.4	4,596.9	−0.4	1,838.7	−1.2	628.6	+1.7
2000	10,043	0.5	4,576.9	−0.4	1,811.6	1.5	640.5	+1.9
Total		−2.6		−2.6		−9.8		+10.5

Notes:

* At the beginning of the year.

** This dramatic decrease in population was mainly due to a change in the statistical system.

Agglomeration zone, 1993–1996: Calculated data.

Source: *Budapest Statistical Yearbooks 1992–2000*.

years. On the other hand, the settlements of the agglomeration show increasing growth, and this is not restricted to the close agglomeration zone any more. Also taking into consideration the fact that the first major actions of parcelling out of land took place in the agglomeration belt only in the middle of the 1990s, and that there are much more aggressive extensions planned for the near future, migration from Budapest may increase even more.

Table 3.2 in the comparative city-development chapter in this volume (Chapter 3) shows that among the Central European capitals, it is Budapest where suburbanization is expected to continue the fastest, despite the fact that Budapest is not a very densely populated city (i.e. there would be plenty of space even within the city to improve the living and housing conditions of the population).

The restructuring of the population of the capital does not solely depend on suburbanization. As mentioned earlier, there is also an “inner suburbanization” going on, in the process of which inner areas lose population to the outer parts of the city. The main cause is the “push factor” of the offices and other business and administrative functions occupying inner city areas, but the “pull factor” of the outer districts – which offer plenty of opportunities for new construction of semi-detached and detached houses – is also important.

Table 9.6 Balance of migration between Budapest and Pest County

	1990	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Permanent inhabitants	-2,203	-5,918	-8,106	-10,856	-10,778	-11,601	-11,864	-13,442	-15,433	-16,981	-14,300
Temporary inhabitants	682	811	129	-1,740	-1,469	1,022	-1,194	-278	-1,076	-733	-924
Together	-1,521	-5,107	-7,977	-12,596	-12,247	-10,579	-13,058	-13,720	-16,509	-17,714	-15,224

Source: KSH Budapest Statistical Yearbooks 1990-2001 (no data were available for 1991).

Due to all these reasons, during the 18 years between 1980 and 1998, the population of the whole city decreased. This decline, however, was not the same in all parts of the city:

- 69.9 per cent in the CBD area of Budapest (districts I and V);
- 75.4 per cent in the inner city (VI–IX districts);
- 82.8 per cent in the transitional belt (X, XIII, XIV);
- 91.3 per cent in the high-quality Buda side (II, III, XI, XII, XXII); and
- 105.6 per cent in the outer districts (IV, XV–XXI).

These data (and Fig. 9.2) refer, besides suburbanization, to substantial internal restructuring, leading to a quick decline in the population of the inner areas while the outer parts were growing.

As already mentioned, trends in new housing construction changed around 2001–2002, as growing state subsidization of new housing and more willingness on the part of the banks to give loans for housing resulted in growing new construction, especially in Budapest. It remains to be seen whether this new dynamism is only temporary, or if not, whether suburbanization can be lessened in this way.

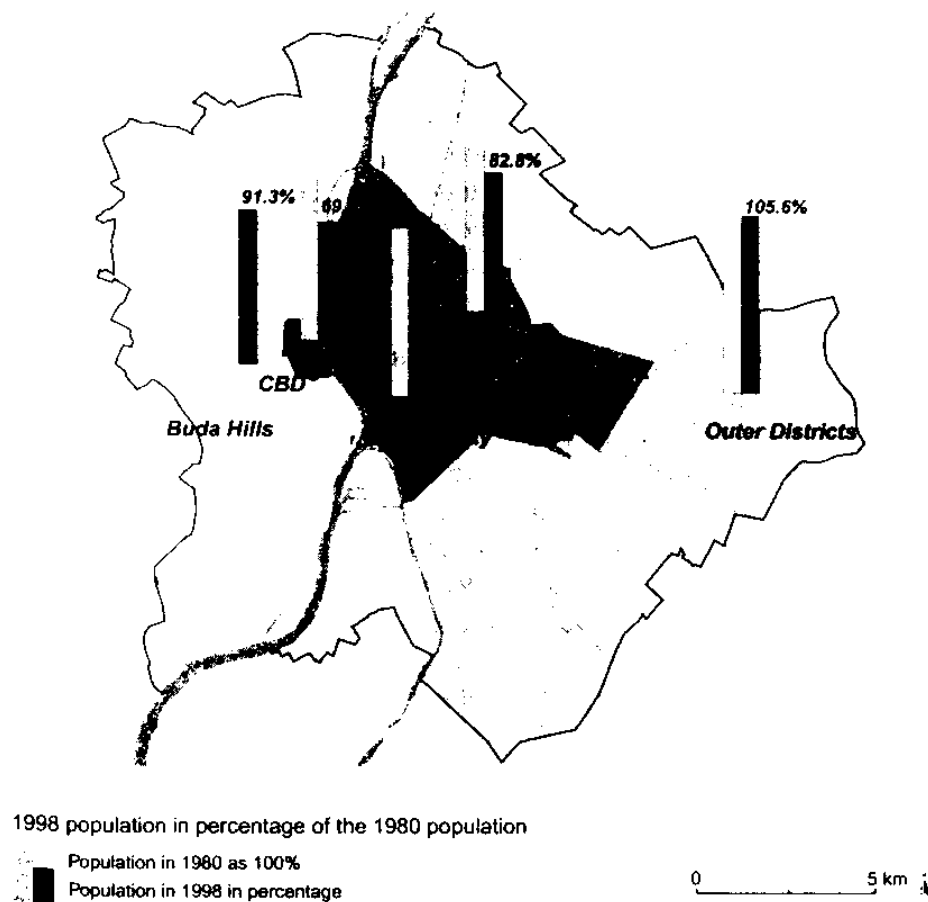


Fig. 9.2 Population in the city of Budapest, 1980–1998.

Effects of the Transition on the Various Parts of the Transforming Post-socialist City

The various parts of the socialist city became subject to vastly diverging processes after the change of the political regime. The effects of the economic, social, demographic, and population changes can be categorized by city area as follows:

Inner city areas. Privatization had a strongly diversifying effect. In the prosperous parts of the inner districts (within the central business area or in its immediate vicinity) privatization has been almost wholesale and the rehabilitation of houses is under way, as a large majority of the population can afford to invest in renovation. In the less advantageous high-density areas, private apartments also prevail, but as the low-quality rental units are concentrated in this zone, there is hardly any hope that the new condominiums with mixed ownership will create the uniform will of the owners which is required for reconstruction. Thus, the moving-out of the middle class is quite predictable and it will eventually lead to the deterioration of these areas.

Transitional zone. Certain elements of the mixed functions (e.g. major factories) of this zone were almost universally going bankrupt and closing down. Only a tiny part of the industrial areas can be transformed, and this transformation is controversial too (condominium-like coexistence of small enterprises in large halls, previous industrial premises). This zone, 4–8 km away from the CBD area, is the biggest adjacent problem area of the city. At the same time, however, this is its biggest and one of its most well-located territorial (re/development land) reserves as well.

New housing estates. These have also witnessed large-scale privatization, which led to an increase in differences. The higher-quality blocks (those built in the 1950s from bricks, and those of the 1980s built to a higher standard, in better parts of the city) and especially the smaller four-storey houses have a relatively better position, and real-estate prices here are relatively high. The high-density housing estates built in the 1970s, with 10-storey houses and high maintenance costs, are in the worst situation. Certain signs show that the middle classes began to abandon the area, which in this physical environment can very easily lead to the emergence of slums.

Elite green-belt areas. These areas can only further develop in a qualitative sense (along with some increase in density) because of a lack of space supply. Qualitative changes entail the disappearance of problems in areas such as telephone, road, and commercial services. As a rallying place for high-quality private services (e.g. private schools, private clinics) since the change of the regime, these areas retain firmly their dominant role among urban classes of housing, a role that might be challenged only by some luxurious suburban housing parks.

Outer single-family housing areas. These are most stable where there are only gradual changes in infrastructure (telephone and perhaps sewage). Private construction activity is continuously going on and leads in some areas to densification.

In the case of *suburban settlements* the newly won municipal independence, the new financial redistribution system that favours the smaller settlements, and the high priority given to infrastructure developments had the consequence that these settlements have managed to overcome their infrastructure backwardness in the course of six to eight years and are able to provide very good infrastructure conditions to the population and certain types of enterprises. There are also some poorer settlements towards which less affluent families move out from the city, mainly from high-cost flats on housing estates.

Polarization – that is, the increase of differences according to type of housing, housing environment, and differences in the incomes of the population – is a universal phenomenon in nearly all the structural elements.

Within the inner districts, the transitional zone, and the new housing estates, certain areas have begun to deteriorate. On the other hand, the CBD area, the surroundings of the new shopping centres, the green-belt areas, and many of the suburban settlements are the places where positive tendencies dominate (Fig. 9.3).

Plans and Cooperation for the Future

New Strategy for Development

As a logical consequence of the collapse of the socialist system and the total change in political, administrative, and financial relations at the city level, the system of economic–social planning has also changed. The five-year plans of the socialist period were prepared according to the political intention of the central planning body, in an iteration process between the central and local levels. From the second half of the 1980s, the local governments were given more freedom to establish their plans within the framework established at the central level. After the 1989–1990 changes the independence of the local level, including planning, became one of the cornerstones of the new political and administrative system. Parallel to the disappearance of all forms of central guidelines (top-down planning), all forms of forecasting have also been discredited. As a result, local governments base their activities on yearly prepared, budget-orientated plans.

In the case of the Budapest municipality, around 1993–1994, the first medium-term financial and investment plans were created (first for three to four years ahead, later for seven), in order to forecast the effects of new investments on the city budget. In the second half of the 1990s, when the period of consolidation was finished – the institutional set-up and the financial roles and responsibilities have

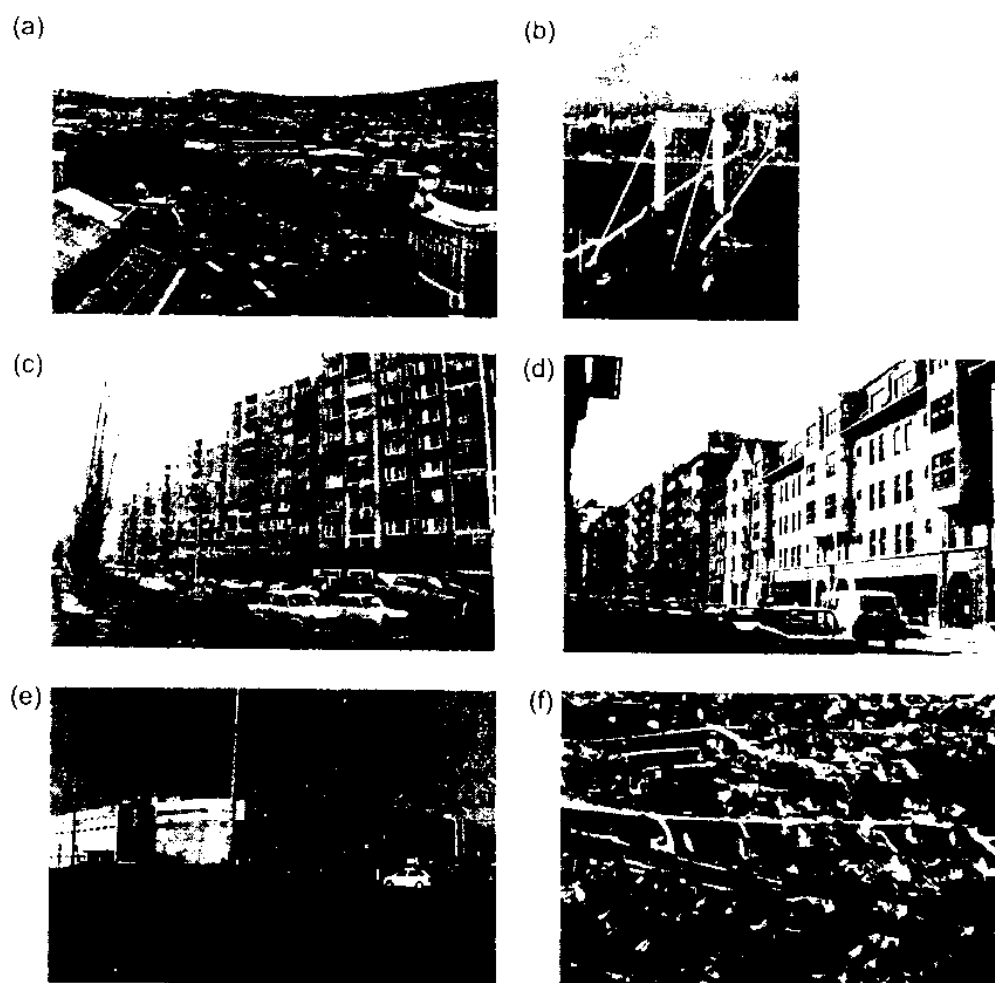


Fig. 9.3 Image of Budapest. (a) Inner city, Buda side. (b) Elizabeth Bridge, Pest side across the Danube. (c) Havana housing estate, District 18, built in the 1970s. (d) Urban renewal in District 9, Raday Street. (e) Lurdy ház, new shopping centre, District 9. (f) Suburbanization north-west of Budapest, Coshánka village.

been clarified in the complex, two-tier Budapest local government system – the leaders of the city went another step forward and initiated the preparation of a long-term Strategic Development Concept for the city.

The Budapest Strategic Development Concept – the preparation of which started in October 1997 – is aimed at a period of 15 years. Its objective is to identify a conceptual framework for city development – there will be no definite conclusions drawn on any specific area or technical problem, but the Concept will outline the main trends in the most important sectors of city development and no sectoral concept should be passed which would be in contradiction to the Strategic Development Concept. The Concept focuses on city development primarily from the point of view of the public sphere, analysing especially the role to be played by the municipality (and occasionally by the districts). The

Budapest Strategic Development Concept suggests, as a starting point, a balance of three main strategic aims: economic efficiency, sustainability/quality of life, and solidarity.

To increase the efficiency of the city would mean to:

- promote the efficiency of the economy;
- develop the macro-regional connections of the city; and
- improve inner traffic conditions (efficient connection of public and individual traffic, ring-road development).

To improve quality of life in the city would mean to:

- help to preserve the compactness of the city;
- speed up urban renewal, in both the inner city residential and transitory industrial areas;
- improve housing conditions, ensuring favourable terms for new construction;
- develop public spaces and green areas; and
- help environmental sustainability (develop infrastructure, protect green areas).

To ensure the solidarity aspect of city development it is necessary to:

- improve the social situation of poor people and poor areas (decrease inequalities between districts, fight against ghettos).

The basic approach of the new Budapest Strategic Development Concept is quite different from the previous development ideas. It is obviously different from the socialist planning ideas, in so far as it accepts the existence and leading role of the market economy and the big (in some regards decisive) role that private and market actors play in city development. On the other hand, it also differs from the more or less "laissez-faire" ideology of the 1990s, as the new Concept aims for more active, initiating public policy in city development.

The active role of the public sphere can be categorized in three quite different forms:⁶

- regulating the market: to cooperate with market forces, to help and regulate their activities;
- initiating the market: to make basic improvements to and investments in the infrastructure, as a result of which market forces will become interested in further developments; and
- replacing the market: to carry out developments that are not in the interest of market actors but are very important for the city.

In the socialist period, city development and planning was totally dominated by the public sphere; market forces were suppressed even in those areas where their higher efficiency was obvious. In "laissez-faire" type urban development strategies, the role of the public sphere is minimized, constrained purely to the market-replacing function.

The new Budapest Strategic Development Concept aims to remain in between the two extreme alternatives. The Concept suggests applying all three forms of public involvement in a differentiated way, depending upon the criteria of the optimal share of roles for the given tasks. Regarding the concrete statements

made by the Concept, the following examples can be given of the different roles the public sphere should play:

- regulating the market by supporting the most innovative sectors of the economy and offering regulatory and financial help for the preparation of new multi-family housing and urban renewal;
- initiating the market by restructuring the distressed transitional belt of the city (to initiate new private investments with the publicly financed development of a new ring road and improvements to the basic infrastructure of the area); and
- replacing the market by giving public support to distressed areas of the city and developing basic conditions for cooperation with the agglomeration belt.

From this overview it can be seen that the Concept suggests proactive city policy even in some sectors which do not belong to the mandatory tasks of the municipality. The suggestion of new roles for the municipality to play is the essence of the new Concept: the municipality should take the initiative not only in market replacement but also in market regulating and market initiating tasks.

The Concept involves strongly defined spatial priorities, the following areas being of primary concern for future public development policy:

- the restructuring of the transitional belt: to develop a new circle-road around the inner city, mainly on the Pest side, with two new bridges at the two ends, in order to bring new life to the whole transitional belt dominated today by derelict industrial land, mostly out of use;
- improvement of the banks of the River Danube as one of the main attractions of Budapest, connected with suggestions for waterfront housing and renovation of the existing physical structure;
- continuation of urban renewal in the inner city areas, in parallel with efforts for traffic reduction, new parking policy, the reduction of density, and improvement of public spaces; and
- upgrading of the outer areas, especially the centres of the outer districts (having been independent settlements in the past), helping also to overcome infrastructural backlogs and preserve still-existing natural values.

The main long-term goal of the Concept is the redevelopment of the transitional zone, which also means exploitation of land for future development in the under-utilized brown-field area. The development of the zone along the River Danube and the continuation of urban rehabilitation in the inner city are the other two main aims, also with short- and medium-term relevance. The intertwining of the different goals is also very important: the restructuring of the transitional zone will ease the load on the inner city by supplementing its functions and improving its quality. At the same time, the improvement of public transport, the new ring road, and the suggested inter-modality centres will also promote the integration of the outskirts into the city. Thus, the development outlined above is beneficial for almost all districts of the capital, as their own population will gain, either directly or indirectly, by having new local centres and inter-modal nodes, and by the restructuring and strengthening of the economic functions of the transitional zone.

The Draft of the Strategic Development Concept was discussed on a political level in the municipality and sent out to the districts, relevant ministries, and some other key actors of city development for official discussion. On the basis of the comments received, a new version of the Concept was prepared and submitted to the Municipal Assembly.

The Region: Cooperation between Budapest and the Surrounding Area

The Strategic Development Concept focuses primarily on the problems and development of Budapest. It is obvious, however, that Budapest is going to become an EU capital city in the near future. Therefore, EU legislation and the aid system of the structural funds promoting accession will be of primary importance.

By the time Hungary becomes an EU Member State, the NUTS 2 regions will be the main depositories of investments. According to the present law, Budapest and the surrounding Pest County form the Central Hungarian Region. Thus, after EU accession, most probably not Budapest itself but the region will be the subject of EU programming and will be in competition with other European regions. For all these reasons the Budapest Strategic Development Concept needs to consider national, regional, and agglomeration coherence.

Efforts must be made in order to have the main elements of city planning in tune with the regional development concept currently under preparation.

The role and functioning of the NUTS 2 regions is one of the most important questions for the candidate countries. This is especially true for Hungary, where, after several years of uncertainty, the lower subnational level, the 19 counties, became very strong again politically (having elected self-government). As a result, by the end of the 1990s the Hungarian regions could not be defined as completely new units with new borders, but only as a certain grouping of the counties (three counties form one region). The new socialist-liberal government (2002) aims to change the present system into a new arrangement with self-governing regions, which would have a stronger status than their present "planning-statistical" one. This would need strong political will and also the support of the opposition parties, however. To replace the counties with self-governing regions will not be easy: all the presidents of the Regional Development Councils are presidents of the Development Council of one of the counties belonging to the given region, which clearly indicates the strict control of counties over the regions. Counties always emphasise their "1,000 years of existence" and would fight very hard to preserve their self-government status, thus hindering the regions from achieving this status.

It is clear that accession countries need, on the subnational level (between the national and local governments), well-functioning planning capacity. At the same time they also need democratic, elected subnational government. In the optimal case, efficient planning capacity and democratic government are created

on the same subnational level, as the creation and fulfilment of plans needs strong legitimacy. To reach this optimal case, however, is not easy. Recently only the Polish regions fulfil this criteria, while in the Czech Republic and Hungary these two functions are on different levels (EU planning on the regional level, self-government on the county level). In these countries the unification of the two functions on the same level could be a longer process, where the final outcome is uncertain.

Capital cities are always in a special situation regarding the regional system. Many of the capitals create regions themselves (Vienna, Berlin, Prague, Bratislava), while there are also examples of regions including the capital and its surrounding area (Warsaw, Budapest). It is uncertain which version will apply to Budapest by the time the regions achieve self-government in Hungary.

The Strategic Development Concept of the city aims at cooperation with the agglomeration and other parts of the region, accepting the fact that city development is a multi-player game. In order to ease the tensions between the city and its surrounding areas, the Concept assigns a central position to the establishment of the institutional system of participation, the strengthening of partnership relations and cooperation, the development of market-conform, investor-friendly regulatory instruments, the development of a predictable system of decision-making, and the adequate communication thereof.

The Position of Budapest in the Competition of Cities

City competition does not necessarily or exclusively mean the competition of two neighbouring cities. When talking about city competition in relation to Budapest, most people concentrate on the competition between Budapest and Vienna. In certain aspects, however, Budapest is more in competition with Warsaw, Prague, and Bratislava (or in even broader context, with Bucharest and Sofia) than with Vienna – e.g. regarding potential investment by overseas investors (shopping centres, car factories, etc.).

The chances of Budapest in competition with the other mentioned cities are not bad. Budapest is in a good geopolitical situation to become, on the one hand, the gateway for Western influence towards South-east Europe, and on the other hand, the transfer city of South-east European culture and values towards the West. Being closer to the Eastern neighbours of the European Union to be enlarged, Budapest has a good chance of taking over most of the gateway functions of Vienna.

Besides pure competition, it is also worth discussing the relationship between competition and cooperation. In order to increase the attraction of bigger geographical areas, cities should cooperate, whereas within smaller areas the same cities might compete. If we take again the example of Vienna and Budapest, it is in the interests of both cities that Central Europe becomes more attractive, leading to increasing overseas investments, tourism, and so on. It is already now

the case that many overseas visitors come for combined visits to Prague, Vienna, and Budapest within a one- to two-week schedule. In this sense these cities should cooperate, to increase the joint capacities of their infrastructure (e.g. cooperation between airports, fast rail link, split of tasks instead of direct rivalry).

Conclusion

Budapest belongs to the group of Central European cities whose transition from an already more reformed socialist city towards the market was fairly quick. Not only the speed but also the extent of market-orientated changes is of importance, as almost all forms of public control have been withdrawn.

Due to its favourable geopolitical position, the stability of its political system and economic regulation, its improving macro-economic situation, and the above-mentioned "liberal" policy towards the market, Budapest has received by far the most FDI in the region in the first six to eight years of transition. Thus Budapest is among the "first runners" in the "restructuring race", on the example of which the main tendencies of the change from the socialist to a market-orientated model of city development can be well illustrated.

As result of the huge amount of FDI coming into Budapest, market services and their related infrastructure (telecommunications, financial services, different types of commercial real estate – petrol stations, shopping centres, offices) were developed the fastest, and these were the areas on which most foreign investment was spent. As the public sector was recovering relatively slowly, was fragmented and blocked by internal debates, and had only limited investment possibilities, city development soon became dominated by the market – the share of the private sector in total investment can be estimated to reach as high a share as 70–85 per cent! The domination of city development by private investments came very quickly and was very much concentrated in some areas of the city – for these reasons, some analysts talked about the "invasion" of the capital.

The strategy of the political leadership of Budapest in the 1990s can be considered as quite "liberal"; there were very few planning constraints raised and even most of the municipal works were offered for privatization, in order to overcome the difficulties in infrastructure services and get capital for the necessary investments. The only method the municipality did not use to attract foreign investment was tax concessions. The belief of the leaders of Budapest was that the city is very attractive and that many investors and developers would come, even if the level of local tax (the business turnover tax) was fixed at the highest level allowed by the national Law on Local Taxes.

This strategy can be evaluated in general as successful. Although there are cases known of companies moving out of the capital or new investments being placed into the agglomeration belt instead of the capital, all in all the influx of investments into Budapest was not substantially hindered by the relatively high

local tax rate. On the other hand, this quickly increasing tax revenue presented good opportunities for the capital to improve the basic infrastructure of the city. While the amount of business turnover tax was in 1996 only around the half of the amount Budapest has got from the central budget, this proportion has changed and since 1999 business turnover tax revenue surpassed the support Budapest is getting from the central level (partly as a result of the increase of this tax but also due to the efforts of the central government to equalize budget allocation, favouring less-developed settlements and areas of the country).

Thus, the liberal, non-regulatory approach of the Budapest municipal leadership has resulted in good economic results so far. There were, however, also problems with this approach. Investors were not constrained at all in their efforts to find the easiest solutions for their investments, and in this way they could avoid more difficult, more costly, but at the same time more sustainable solutions. This caused, for example, growing problems with the brown-field zone (instead of investing into existing rundown industrial premises, investors chose green-field sites within or around the city) and a decrease in green areas. Additionally, the liberal approach has led to a sharp increase in inequalities between the different strata of society, and among the different areas of the city.

The basic consideration of the new Budapest Strategic Development Concept is the suggestion that the public hand should change its strategy, playing a more active role in the future in shaping urban development, including the build-up of a new type of supporting, initiating, and control function of the public sector over market forces. Although Budapest is not at all as rich as the very powerful municipality of Moscow, the decade of liberal handling of private economy has brought some financial means, forming an initial base for the new, extended role of the public sector.

Thus, the future of Budapest depends very much on the capability of the municipality to establish this new type of public leadership (regulating, initiating, and in some regards controlling market processes) in order to support economic growth, help the fulfilment of the sustainability criteria of urban development, and ensure the maximum level of solidarity (handling the problem of growing disparities between the districts, between the richer and poorer sides of the Danube, etc.). This new type of public leadership must also take cooperation on the regional level as an important goal, ensuring the optimal development of Budapest and its surrounding area, as the central region of Hungary.

What are the lessons we can learn from the case of Budapest's development in the last decade? There are at least two. The first is the necessity of replacing all the important parts of the political, decision-making, institutional systems of the socialist city very quickly by new market-orientated establishments. Empirical experience shows that there is a very low chance for success with "third-way" solutions, i.e. any combination of socialist and market principles. However, there is also a second lesson: in the new, market-orientated political and institutional structure it is absolutely necessary very quickly to "build up" again the public

sector, i.e. to establish a new, legitimate, strong institutional structure which can – in a market-conform way – successfully represent the public interest in the market-orientated city development process.

Acknowledgement

Thanks for the contribution of Éva Beleznay and Éva Gerőházi.

Notes

- 1 For further discussion of the urban history of Budapest, readers are referred to Enyedi and Szirmai (1992) and Enyedi (1997).
- 2 Six political parties managed to get into parliament, three of which (Hungarian Democratic Forum, Smallholders Party, Christian Democratic Party) formed the above-mentioned coalition, while the remaining three (Alliance of Free Democrats, Federation of Young Democrats, Socialist Party) were in opposition.
- 3 For a more detailed analysis of the changes in housing policy see e.g. Hegedüs and Tosics (1992, 1994).
- 4 KSH Budapest Yearbooks only contain data on inner migration within Budapest. However, the total migration difference may also be calculated from population figures and natural multiplication data; inner migration may then be eliminated and the approximate balance with the country can be formed.
- 5 See note 4, above.
- 6 This idea has been developed in conversations with Paul Baross.

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Transformation of cities in central and Eastern Europe: Towards globalization

Edited by F.E. Ian Hamilton, Kaliopa Dimitrovska Andrews,
and Nataša Pichler-Milanović



**United Nations
University Press**

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