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THE HUNGARIAN COUNTRYSIDE IN 2015



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## FOREWORD<sup>1</sup>

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This study has been produced under special circumstances in that I have not waded through hundreds of pages of references before its preparation. I was asked to use my imagination, my 17 years of experience in scientific research, my knowledge of real life experience, in fact everything I have accumulated in my mind over the years concerning the topic.

I was asked to present ideas and to propose policies which could play a role in mastering or at least slowing down the rise of the gap between the towns and the countryside by the date mentioned in the title. What should be done in order to make the Hungarian countryside liveable and in order for it to be more appealing to the coming generations?

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<sup>1</sup> This paper is based on a study carried out in 2005 and financed by IFM (Working Group on Integration and Development of the National Development Office). I would like to acknowledge the general assistance of my colleague David Ellison.

## DEFINITION

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Before getting to the substance of the study, it is worth specifying what I mean by *countryside*. Fortunately, I was given a free hand in elaborating the study, for I would be pretty confused if I were to clear up definitions on the basis of what appears in the bibliography: each resource contains a different definition for the term “*countryside*”. In this study, my arbitrarily created definition for *countryside* indicates a geographically delimited area with:

- \* low employment;
- \* a far more significant agricultural sector than the national average;
- \* very little industry and few services (e.g. financial, insurance);
- \* investments which are insufficient for simple sustainability;
- \* a low level of and declining material infrastructure (road, rail, waterways, energy, housing) and public services in the wider sense of the term (education, healthcare, culture, administration);
- \* and as a consequence of all the above: ageing of the remaining and emigration of the young population.

Here, however, two remarks should be made:

- \* first, the enumeration of the characteristics of the *countryside* could be continued without end, but with some of them I would cause great anger among hypocrites;<sup>2</sup>

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<sup>2</sup> For example, the presence of large numbers of gypsies is closely correlated with declining regions. Why? Since property prices are so low, even gypsies can afford to settle in those regions. And as their number increases, prices go down even further.

- \* second, impoverishment and marginalisation are not characteristics of the *countryside* alone. I have no data whether there are more poor people in towns or in the countryside. But presumably, it is much harder to be poor in towns than in the countryside, as in the latter case one can grow food and collect firewood – even by stealing it in the woods.

## WHAT COULD MAKE THE COUNTRYSIDE MORE LIVEABLE?

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Hungarian politicians would presumably respond that the key to modernisation is steady economic growth at the national level as well as within the geographically delimited regions. But serious objections could be raised to this assumption. On the basis of national macroeconomic data there is nothing wrong with Hungary. It is a fact, however, that neither in the counties – nor in the quickly developing Budapest – has there been any slowing down in the widening of the gap between rich and poor and more generally in differences in the relative chances for prosperity. The reason for this is an uneven distribution of GDP-growth between foreign and Hungarian capital on the one side and between Hungarian capital and the rest of Hungarian society on the other. The increasing polarisation of Hungarian society has now become an obstacle to socio-economic development in the wider sense of the expression.

As for the theory about the impact of local GDP-growth, one should express some reservations. Suppose a big foreign company, in return for tax allowances, builds a factory in a certain rural area and creates a few hundred, or maybe one or two thousand jobs. If this is a simple “*screwdriver-shop*” acting as a

“*technological island*” and not developing links with the indigenous local industry, it can easily happen that despite a huge increase in local GDP, the factory is unlikely to have a significant impact on local welfare. It can even do without the local workforce.<sup>3</sup>

By all the above, I do not intend to suggest that economic growth is not able – under any circumstances – to enhance the standard of living in the countryside. But, without exaggeration and based on current scientific knowledge I can confirm that the GDP-index, so highly appreciated by politicians, is a misleading and outdated indicator of socio-economic development. Most people do not look at macroeconomic data as a sign of well-being. Instead, they look at whether they have a job that makes them happy, how much their incomes are worth, what their homes are like, whether they have enough free time which they can spend appropriately in order to feel rejuvenated, etc. In order for the features listed above to be available, we need to add two more requisite elements:

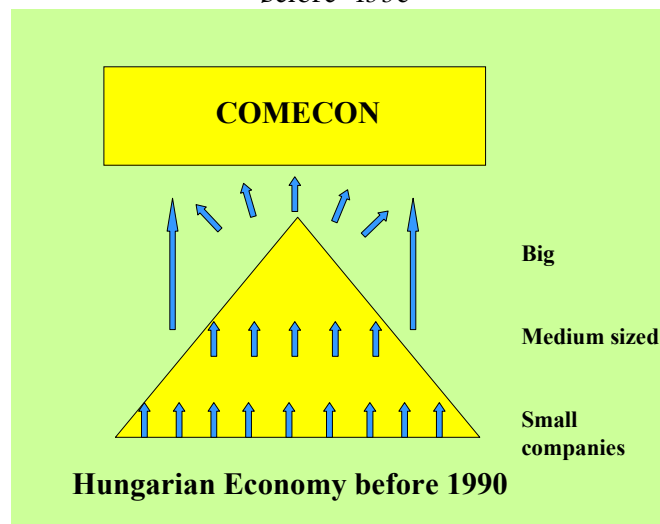
- \* a private sector in good condition and with a healthy structure,
- \* and well-functioning public services in the wider sense of the expression (health care, education, public transport, environmental policy *etc.*).

<sup>3</sup> I could mention several cities of the Transdanubian region (e.g. Tatabánya, Székesfehérvár) where the multinational companies of the local industrial park collect workers who are cheaper than the local labourforce with buses coming from the country's poorer regions.

## THE STRUCTURE OF THE HUNGARIAN ECONOMY

Before transition, the Hungarian economy could be modelled with a pyramid-shaped figure: at the bottom there were many-many small enterprises, in the middle medium-sized ones, and at the top big ones. Suppliers delivered their products from bottom to top and horizontally. Both the mid-sized and the big firms were also engaged in exporting goods. [see Figure 1.]

Figure 1  
The Structure of the Hungarian Economy before 1990



Source: “*Die Autoindustrie in Ungarn – Internationale Verbindungen und die Rolle der Zulieferer*“ presentation of the author at the workshop: Regionale Netzwerke und Clusterbildung Erfahrungsaustausch Ungarn – Deutschland 12. - 13. Oktober 2005, Győr [Somai 2005]

Due to the changes in the political system, the structure of the Hungarian economy broke apart and was thrown into total disorder. A significant share of the big, export-oriented firms – which had mostly been directed towards socialist markets – landed in financial difficulties and the same happened to their

suppliers. Their increasing indebtedness to each other – ending in a sort of gridlock – together with the severe *Bankruptcy Law*, resulted in a situation where middle sized and bigger companies were obliged either to find a foreign investor able to help them reorganise, or to cut back their activities. In the new industrial structure (Figure 2) there are only a few medium-sized and large companies under Hungarian ownership, while at the bottom of this very truncated pyramid there are a large number of small and micro-sized enterprises. It is true that multinational companies have appeared as new market entrants at the top of the pyramid. But since they are unable to find enough reliable and suitably-capitalized domestically owned medium-sized and large firms on the Hungarian market, the MNC's maintain business relationships with their own suppliers or order from each other. Very

capitalised that they are unable to supply their products in sufficiently large quantities (several million per year), at an adequate level of quality (only a few PPM waste), on a “just-in-time” basis and take on all the relevant risks.

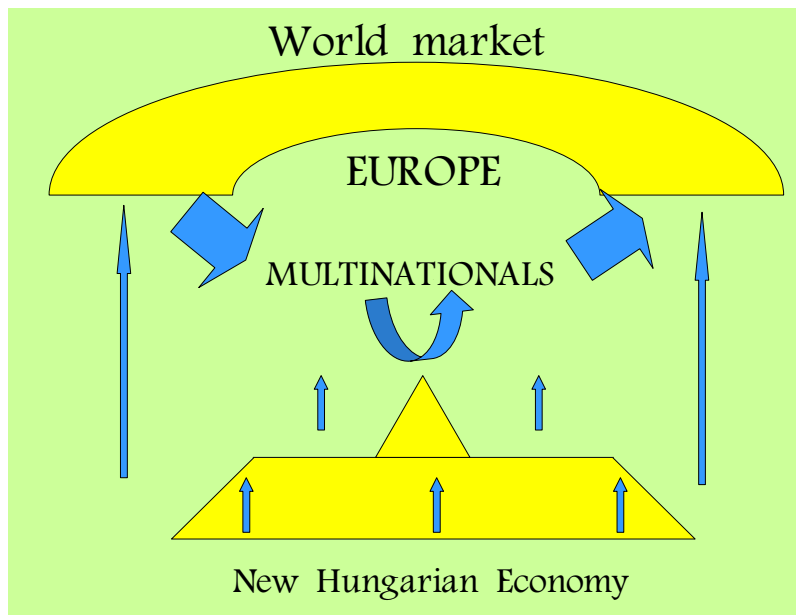
It is very difficult to modify the economic structure of a country by force and it would be so out of keeping with the current approach to economic policy that it seems to me almost impossible to make any successful attempts. In any event, since the Hungarian economy – due to its currently unhealthy reorganized structure – will not be able to correct the structural deficiencies on its own for a long time, we should therefore not renounce the use of the tools of national economic policy.

Typically, since the beginning of the transition, state subsidies have helped two kinds of companies:

- \* small and medium-sized enterprises (SME) (which actually are only small and micro-sized companies);
- \* and giant firms which are all 100 per cent in foreign hands and have performed very large investments in Hungary.

The overemphasis on the role of foreign direct investments (FDI) by the political elite is thoroughly understandable, for they willingly participate in the spectacular moments of the big projects. But by now, with more than fifteen years experience accumulated in this issue, it has become obvious that these giant projects are incapable of stimulating economic development. They seldom build real connections with Hungarian owned suppliers of the local in-

Figure 2  
The new structure of the Hungarian Economy



Source: “Die Autoindustrie in Ungarn – Internationale Verbindungen und die Rolle der Zulieferer“ presentation of the author at the workshop: Regionale Netzwerke und Clusterbildung Erfahrungsaustausch Ungarn – Deutschland 12. - 13. Oktober 2005, Győr [Somai 2005]

small firms are not able to supply MNC's directly, for they are so under-

dustry and their impact on employment or other parts of the economy – if there is any positive impact at all – is only evident locally. MNC's investing in Hungary try to offer salaries that can easily attract the cream of the regional workforce. As a consequence, people employed by MNC's are typically far more educated and skilled than their jobs require: they take on whatever job they can, hoping for a better salary than elsewhere.<sup>4</sup> Thus, if the MNC's – which produce almost exclusively for export – employ the tiptop of the Hungarian workforce, the firms producing mostly for the domestic market have to make do with a generally less skilled, lower level labour force.

Though the framework of this study does not make it possible to explain this issue in detail or to provide sufficient evidence for the above mentioned claims – we can, nonetheless, conclude that economic policy needs to be rethought and greater emphasis needs to be placed on the enhancement of medium-sized and bigger Hungarian owned companies. Such changes in economic policy would entail – besides improving the economic structure – that medium-sized and bigger companies can enter the supplier chain (*pyramid*) at a higher – and presumably much more profitable – point in the international division of labour than small and micro-sized companies of the polarised Hungarian economy are currently able to do.

Restoring order to the economic structure should go hand-in-hand with related

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<sup>4</sup> At Audi Hungaria, skilled workers account for 100 per cent of the employed workforce which is very high a proportion compared with that of only 70 per cent at Audi's main shop in Ingolstadt (Germany) with a comparable production profile. [Source: Péter Lóré, Audi Hungaria PR manager] Also, while Audi brought R&D activity to Hungary, the only task is to adjust engines to the climatic conditions prevailing in different countries of the world. Thus Hungarian engineers take on the less innovative R&D tasks, though for a relatively good salary compared to what is offered in Hungarian owned companies.

goals in educational policy. Today it is uncontroversial to claim that there are not enough trainees and that those participating in vocational training are only interested in certain occupations that are “a la mode” (car mechanics, heating mechanics *etc.*).<sup>5</sup> Even if people cannot be forced into specific occupations – and for sure, most young people and their parents think only a diploma provides an adequate foundation for good career opportunities – there is room for a coherent educational policy which could at least orient future generations. Today, in those professions where there is a shortage of labour, the (mostly illegal) employment of Hungarians coming from neighbouring countries can partly resolve the problem. But, as the crowding out of illegal workers from the labour market seems to be inevitable, young men and women with appropriate professional training will doubtless have good prospects for earning their living.

In view of the above, a new educational policy could eventually be linked with minority policy, since by applying for jobs where there are labour shortages, young gypsies could find their place in the sun and achieve some social prestige. Taking all the above into account, educational policy should organise the training of the labourforce and, if possible, in those regions where impoverishment and emigration are the most problematic. The examples of successful countries – either in Europe or in the Far East – show us that the path to economic development is paved by an efficient educational policy.

The harmonisation of economic and educational policy could open new chances for development in rural areas. Where the volume of skilled labour crosses a certain threshold, sooner or later capital will also appear. In order

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<sup>5</sup> We have to remark, that the lack of an adequately structured labour pool is gradually becoming the main obstacle to attracting the FDI so highly appreciated by politicians.

for this to occur sooner – rather than later – one additional role has to be taken on by the public administration (of the state, region and county): to develop the public services in order that they respond to the requirements of the modern private economy.

As this question directly affects the other one – that of how to make the countryside more liveable –, I treat it in a separate section and not exclusively from the point of view of the private economy.

## PUBLIC SERVICES

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Capital alone, without the men who make it work, goes nowhere. By this I mean that one cannot invest capital in a region if one cannot find managers who are ready to work there and who can guarantee its smooth functioning and a good return. Money, it's true, can help to convince men to do a lot of things, but to settle somewhere and for a long time, an adequate level of public services is required.

The situation is the same when considered from the point of view of the people living in the countryside. It is not possible to keep the population in a given region by job-creation alone. It is mostly the mobile, young generations who tend to leave the countryside for better living conditions in the cities. And they may do this even if they can get a job at home.

What do I mean “liveable conditions”?

## PUBLIC TRANSPORT

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Let's start with the current situation. In regions on the verge of marginalisation, there are no jobs and those who want to work have to commute either shorter or longer distances. Regarding the actual state of public transport, commuting is time-consuming and involves a lot of difficulty even across short distances. Trains and buses are dirty, uncomfortable, drafty, too well or not heated at all, slow, not punctual: in a word, there are few who can endure this commuting life, especially over longer periods of time.

The prevailing economic policy focuses on the development of individual transport. Motorways have been and are still being built for tens and hundreds of billions of Hungarian Forints and not always there where actual transportation needs would justify it. The reason for this is the official argument – by now dogma – that motorways attract FDI and capital. This statement, however, has never been proven in practice: one has only to drive along any of the existing motorways to see to what degree this argument is untenable.

Following the above logic, one could also plead for the development of fixed track public transport (mainly railway) systems, for these could provide the same facilities for goods transport as a high speed road network. Fixed track public transport systems could also be used for mass public transport: using these systems, employees could arrive at their workplaces more punctually than with buses that are more likely to run into traffic jams caused by accidents, breakdowns, or bad weather. The billions of Hungarian Forints devoted to building new motorways could be much more efficiently spent on railway modernisation. Western European examples illus-

trate that people give up using their cars when the same convenience, speed and cleanliness are available via public transport. Moreover, people use public transport only if they can rely on it. A sole pair of trains per hour is not enough. If high-speed trains were to travel every fifteen minutes between say Hatvan and Salgótarján – with 5 or 6 stops along the stretch – inhabitants of the region would rely on them and use them not only for commuting but also in their free time.<sup>6</sup>

Developing public transport would have a very positive effect on the life of declining regions. Our current transport policy has – most regrettably – other priorities. To begin with, this policy claims that public transport has to be developed where there are great masses of passengers, hence in Budapest and its outskirts. In coming years, the construction of the 4<sup>th</sup> metro-line and the modernisation of suburban trains in and around the capital will presumably consume a large share of government resources. The decline of the countryside and its splitting-off from the economic mainstream will thus continue even in the field of accessibility.

## **PUBLIC ROADS, PUBLIC AREAS**

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At the beginning of the 21<sup>st</sup> century, when contemplating the current state of pedestrian traffic, we cannot keep lamenting why Napoleon did not march further than Győr.<sup>7</sup> Even today there is

<sup>6</sup> Such infrastructure investments could create good opportunities for the specialization of the above mentioned cities: for example, Hatvan could become a cultural site, whereas Salgótarján could offer programs for excursions and sports enthusiasts. Such specialisation could be further reinforced with local land use policies.

<sup>7</sup> Győr is the first big city in Hungary when one enters the country from the West.

no pavement at all on a significant share of road networks of Hungarian municipalities. And where there is pavement, it is only on one side of the road. Another deficit is that in the majority of residential areas, roads have no solid cover. Spending hundred of billions on motorways when, in most cases, we cannot even cross the road with dry shoes: that's what one calls an odd situation! It is as though one would teach a child how to run without first teaching him to walk.

Below, I'd like to discuss some problems whose resolution would make declining regions much more liveable, without costing the taxpayer more than the current policy of extending the national highway network:

- \* it is typical that municipalities which are relatively close to each other cannot co-operate sufficiently. The reason behind this is that although there may be no more than 4-5 kilometres between say two villages, as they have no direct road connection, people need to drive some 15-20 kilometres to get from one municipality to the other;
- \* there is a complete lack of regional roads that, by avoiding the municipalities, could create fast connections between rural communities and the national road network;
- \* it is common knowledge that there is only two things worth less than a Hungarian citizen's time: their life and safety. There are no turning lanes or public lighting at road junctions and road markings (edge lines, centre lines etc.) and light-reflecting materials on both sides of the roads are non-existent or not visible. All of these are highly important in bad weather or at night when visibility is low. In most places where roads cross the railways, there are no separate bridges for trains or cars, only single-level crossings. The edges of the roads typically have no emer-



gency shoulder so there is no room for pulling off to the side of the road. If a car skids off the road it will immediately land in the ditch and is very likely to turn over in the process, which is of course extremely dangerous;

- \* roadside traffic signs and travel information are still in their infancy. There are no obvious signs or other route indicators, not to mention the total absence of modern electronic boards with the potential for the continuous updating of important travel information.

Naturally, I am fully aware that the above-listed deficiencies are for the most part also present in the more developed regions of the country. It is, however, a fact that the resolution of these problems cannot be avoided. And if that is true, why not start the work in the declining regions? Why always begin modernisation in the most developed parts of the country, saying underdeveloped regions aren't yet ready for change? It is impossible in this way to narrow the socio-economic gap between the Hungarian regions or to slow down the continued rate of decline of the less developed regions. We should adopt a positive and progressive approach in favour of the declining regions. Otherwise important parts of our countryside will be deserted or will become ghettos of the poor where nature conservation and management remains the only economic activity.

## EDUCATION, HEALTHCARE

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In addition, the condition of big public service provider systems has a huge impact on how liveable a region is. Following the tendency of the last ten years, in regions with declining populations, one after the other institutions have been

closed down or merged with other institutions. Already in their early years, children must become accustomed to commutes which in bad weather would wear out even adults. In declining regions, smaller hospitals continue to land in financial difficulty, several wards have been closed and local people often have to spend their entire day getting to and back from distant county hospitals in order to obtain treatments available only at these far-away locations. Local people can, and with good reason do, feel excluded from normal human life and against their own convictions and interests encourage their sons and daughters to leave the native land if they can.

In many respects, the development of education and healthcare is like a capital investment:

- \* first, in order to run such institutions, they need a staff. Teachers, doctors and others need to be convinced that it is worth settling in declining regions. Since they are people, one important incentive is money (higher than average salaries, fellowships, etc.), or the possibility of additional fringe benefits (e.g. training, the provision of housing). Since such men and women perform vital services to communities, society should not regret the money needed to support them;
- \* second, in most cases, the results of such efforts are likely to appear evident only in the medium and long term. "Investments" of this type cannot guarantee quick returns. The immigration of highly qualified people will have a positive effect on the willingness of local people to stay and may even induce further immigration. Especially for young people and families with children, it is important to be able to find good educational and healthcare services in their immediate vicinity. The lack of institutions able to provide such services, on the other hand, has a very bad impact on the

public mood, every-day life and the overall status of regions in general.

## OTHER PUBLIC SERVICES

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In addition to the above mentioned basic services, the living standards of the people of the countryside depend to a great extent on the quality of other public services such as public administration, energy supply and institutions providing different sorts of services (for example in the field of culture, sports, *etc.*). Whether individuals are able to take care of their daily needs (*e.g.* banking, shopping, healthcare, *etc.*) in one place without too much additional effort, or whether they have to travel to a distant city is very important. The same is true for leisure activities, but this would already lead us into the territory of private services.

What we have to make absolutely clear is that nowadays the beauty of the natural environment can no longer represent the sole attractive feature of life in the countryside. In order to attain the basic requirements of modern everyday life, public services unequivocally need to be developed at the same time as other things and up to a decent level. And of course, this is after all a matter of money. Concerning the proper use of public funds, one should not only discuss how much certain investments cost, but also how much can be saved in other areas, *e.g.* as a result of encouraging people to remain in the countryside. Neither society nor the economy are useful or meaningful if increasingly masses of people are flowing from the countryside toward the cities and towns. A more geographically even distribution of both population and economic activity can create important opportunities to increase the general welfare. The concentration processes that can be observed almost

anywhere these days can only be considered useful within a narrow economic logic. As far as their social impact is concerned however, even if this is difficult to measure, it is quite possibly rather harmful.

## JOB OPPORTUNITIES, COOPERATION AND BREAKING OUT OF THE COUNTRYSIDE TRAP

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In this section, I try to consider those activities that could be pursued with reasonable hope for profit in under-industrialised, underdeveloped regions.

## AGRICULTURE

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From the economic history of the industrialised countries we know that, above a certain level of development, the agricultural sector does not increase employment. Far more characteristic is that – as population and exports grow – fewer and fewer farmers produce more and more food. This general tendency, however, does not have to prevail at the level of a given region. Arable farming may come to an end on poor quality fields, for example, giving way to afforestation which naturally requires a more significant share of manual labour. In order to make the best use of the subsidies available under the specified European schemes of the common agricultural policy (CAP), in some regions of Hungary it would be worthwhile to invest public money in forestry. In this way, the employment of people remaining in the countryside would presumably cost much less than the payment of so-

cial allowances or the management of the circumstances stemming from their emigration.

Further jobs could also be created if people in Hungary were to recognize that agriculture has a new function which is gaining importance and needs to be incorporated into long term policy thinking: the energy supply. Regarding the energy production that arises from agricultural lands, two kinds of activities must be considered:

- \* first, fuel-production, which means the production of traditional crops (corn, oilseed) with the aim of replacing traditional fuels (like petrol and diesel). Corn is the base of ethanol-production, while oilseeds serve as the raw material for the production of bio-diesel. With adequate tax allowances – e.g. preferential taxes on bio-fuels or on land and profit taxes paid by farmers – and taking into account current and medium-term predictions of the price of fossil fuels, these new products can be competitive for a long time on the energy market. If not by producing crops but by building and running the new transformation capacities, this new profile of the agricultural economy would doubtless contribute to rising employment in the countryside;
- \* second, making use of wind energy. The construction of windmills is still in its infancy in Hungary. But, it's enough to cross the border to Austria at Hegyeshalom to understand how great the difference is between Austria and Hungary concerning the approach to the natural environment: windmills are everywhere as far as they eye can see. Not just several hundred, but rather several thousand. It is not necessary to be a meteorologist to know that the Hungarian side of Kisalföld (the Small Plain) receives just as much wind as the Aus-

trian side.<sup>8</sup> Through the authorisation of the installation of windmills farmers can also gain extra revenue, while the production, installation and maintenance of the appliances will create new jobs.

I am rather sceptical about the potential for job-creation in or related to the agricultural sector. There is, of course, room for arguing that the present distribution of production across the different agricultural sub-sectors is far from optimal and steps towards a healthier structure could automatically raise employment. Clearly, the development of activities requiring manual labour, such as extensive animal husbandry, the growing of fruit and vegetables or high quality wine production, is not only a question of government intervention. Without markets or consumer demand for the products themselves, it is impossible to expect a positive outcome. One can demonstrate in vain – and not much is done in this regard, while the media are overwhelmed with advertisements for fast-food and chips – that one kilo of bio-chicken contains four times the nutritive value of the typical broiler chicken. If most families cannot afford to pay the going price for bio-meat, few will consume it.

By formulating and putting into practice an appropriate agricultural strategy, one could of course do a lot to ensure the success of the above mentioned sub-sectors. For example, it would be a good idea to attempt to determine on a regional basis whether there are any grounds whatsoever for further specialization. After doing this, one could offer a public subsidy to the producers of the given sub-sectors that would consist of supporting them with preferential credits in order to establish a mutually owned co-operative. It could be owned by the

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<sup>8</sup> Besides, as for the utilisation of wind energy, Denmark is the world champion with approximately 20 per cent of electric energy coming from the winds.

“public” and the farmers and focus on the procurement, marketing and maybe some local processing of agricultural products. As long as producers do not take on the responsibility with their own hands of at least part of the procurement, marketing and further processing, they will continue to be at the mercy of foreign players in the given activities. These players often plead for economic liberalism. What rhetoric! In saying this, they act in their own national interest.<sup>9</sup>

## BEYOND AGRICULTURE

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In this section, I will try to outline what kinds of job opportunities beyond the agricultural sector might be available in declining regions. I have already mentioned that by rethinking industrial policy and developing infrastructure and public services in geographically determined areas, new activities and jobs could be created in declining regions. I have also mentioned that these developments can and should occur only hand-in-hand as part of a comprehensive shift in economic policy. The rehabilitation of whole regions may cost a lot, but even it is very difficult to estimate these costs, to abandon these regions would probably cost society and the national economy even more. I understand that the above arguments can hardly be accepted by politicians who deduce the interests of

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<sup>9</sup> Not too many countries are more liberal than Denmark. Accordingly, Danish railway tracks were open to the foreign service-providers without any limitations. But arriving at the border one has to wait for the locomotive to be changed. The reason for this is that Danish technical requirements concerning locomotive safety are so demanding that none of the foreign companies, including the Deutsche Bahn (German Railway), is interested in furnishing a sole locomotive outfitted with such equipment. [Source: Consultation with Peter Mandrup KNUDSEN, Head of Section, Planning Division, Ministry of Transport and Energy – Denmark (14<sup>th</sup> April 2005)]

the country from the concrete quantifiable financial needs of projects. They cannot be persuaded of the long-term utility of values that cannot be expressed in numbers, especially if they only plan in the near-term (*i.e.* for only four years at a time).

When it is a question of creating non-agricultural jobs in the countryside, most people think first of rural tourism. For many, an obvious solution is that if producers cannot live from agriculture, then they should be able to live from renting out a part of their property. But, all this is not so simple. First, we should not forget that we do not live either in France or in Austria. In Europe, the majority of tourists prefer spending their holiday in the mountains or at the seaside. Although the Hungarian landscape is beautiful, it will never, with the exception of Budapest and lake Balaton, become a popular holiday destination for international tourism.

So, we will have to make do with the potential demand arising from domestic tourism. Our well-heeled fellow countrymen – who can be considered the winners of the transition process – are unlikely to choose our impoverished villages when looking for rooms or apartments where they can spend their exciting holidays. This social class either goes abroad, or prefers wellness-centres that provide a wide range of leisure services. Most Hungarians, however, cannot even afford the luxury of going on holiday. Even those who can are obliged to think twice whether and how much to spend on their holidays. From all this it should be clear that rural tourism carried out on a basic level, with the rental of rooms or whole properties, is not a reliable source of income. This is not an activity one can build a career on. This can only be considered a sideline, a complement to one's major source of income.

Naturally, with very large capital investments, one can build up a thriving

leisure resort even in a relatively poor region. Let's take the example of the Szirák Teleki Castle, located at the edge of a village that is in very bad condition and that does not enjoy a favourable reputation. Typically, the inhabitants of such poor regions are not able to invest on their own in such big tourism projects. We should not, however, consider the issue of rural tourism entirely hopeless. In this regard, the following idea has been ripening in my mind for years.

Let's take a – genuinely existing – community, somewhere in the North of Hungary, i.e. in one of our country's poorest regions. Local jobs can only be found in such overstaffed institutions as the municipal public administration, day-care and kindergarten, primary school, post office and the medical center. Some self-employed men and women in small shops, pharmacy and other services can also traditionally make a living. In addition, there is of course the reorganised local co-operative which, however, having already long depleted its livestock and not in much need of labour for the remaining activities, does nothing but stagnate. We can also find one or two animal breeders in the village, but they are only employed on a part-time basis. The majority of the potentially active and employable population is either unemployed or has to commute primarily to Budapest, requiring several hours of travel per day. If one takes the trouble to observe what kinds of people are on the M3 motorway between half past five and seven in the morning, one will see that it is filled with old minibuses, 20-year old Ladas and other similar vehicles. All of these vehicles are crammed with manual workers making their way to Budapest. In addition, one can see large numbers of company buses transporting cheap labour from the poor regions to work three shifts in the factories of big multinationals near and often beyond Budapest.

This village also happens to have picturesque area: a long extending hill,

presently divided between arable land and a beautiful small cemetery. The hill appears to be a hill only from the village, since it is only after climbing to the top that it becomes clear the hill represents the normal ground level while the village together with the surrounding area sits in a depression carved out over the centuries by local streams. If someone looks around from the part of the hill that is closest to the village – in clear weather – the following panorama unfolds:

- \* in the East, the very nice cemetery with its small chapel and gravestones with statuettes. And beyond the cemetery the dark mass of the Matra mountains (including Kékes), as – with the help of a couple of smaller and larger hills – it gradually merges into the Great Plane;
- \* in the North, above the village, the long-stretching hill-chain of the Cserhát, beyond, near and above which one can just manage to recognise the somewhat taller peaks of the hills of the Karancs-Medves Region (and the fortress of Salgó);
- \* in the Northwest, the mass of the Naszály mountain peeping out from behind the gentle ridge of the fields and, far in the background, the very top of the Börzsöny;
- \* to the South on the horizon one can see endless fields bordered by the hilltop of the Ecskend.

In brief: there is a superb panorama from the hill, and if in the past there had been an archbishop (or an abbot) in the village, he surely would have built his castle (or abbey) right there on the top of the hill. The village itself is so banal a place that presumably it is not worth investing in the rental of local property. The hilltop, on the contrary, would be an ideal place for a modest holiday center with an architectural style closely integrated with the landscape and a maximum of 10-15 apartments. A fur-

ther 3-4 hectares of land could be included in the development so that the apartments could be next to a big garden with playing fields, a swimming pool, and tree-lined alleys. Many other services could also be placed at the guests' disposal, providing good opportunities for both passive and active forms of relaxation.

Such a holiday home could provide for the creation of 25-30 new workplaces and, through supplying and subcontracting schemes, several dozen more people could likewise find job opportunities.

However, the question arises how much the construction of such a holiday center would cost and who would finance it? First, let's see how much things would cost. In that region, a house of 250 square metres could be built for approximately 40-45 million HUF. To this we have to add another 10-15 million HUF for furniture and other facilities. The total sum should then be multiplied by 1.2, since construction projects always cost more than originally planned. At the end, we arrive at a sum of 60-72 million HUF. One additional but very important item remains. One has to buy the parcel and then change its legal status from arable land to that of a building site. This change of status alone costs approximately 25-30 million HUF.<sup>10</sup> As a result, the total cost of such a project rapidly approaches 100 million Hungarian Forint. Who has got this kind of money?

Well, what follows is my proposal which, in rough sketch, includes the following details:

\* First of all, there is a need for a law creating a new company form that we can simply call say "*township public limited company*" (TPLC). This company form could enjoy various forms of preferential treatment:

- for example, a 10 year exemption from company tax on non-distributed profits;
- the State should assume the costs related to the change of status of the site (in our case this would ease the project budget by 25-30 million HUF);
- preferences related to the employment of the local labour force (e.g. lower than average payroll taxes), etc.
- The above-mentioned community has already co-operated with the other villages of the township in the framework of several other projects. In the communities belonging to the township there are approximately 2000 households. The estimated share of rich households is 10 per cent. By introducing a property tax and by implementing it in such a way that only the owners of houses above a certain value would pay an annual sum of approximately 100,000 HUF, we could obtain 20 million HUF for the project. This sum would not be lost to the taxpayers, as in exchange for their money they could obtain ownership and limited voting right shares in the TPLC.
- The communities of the township could finance the next 20 million HUF by applying for grants through contracting bids co-financed from special national funds as they have already done for many other projects. In order for this to work, it is necessary that the different kinds of public support for job creation now available only to private companies be available for TPLC's as well.
- The remaining 25-30 million HUF could possibly be financed from preferential (state guaranteed)

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<sup>10</sup> Interview with local mayor.

loans and from shares bought by local inhabitants or entrepreneurs who consider the project worthwhile.

- TPLC's could be majority-owned by the communities of the township. But, in order to carry out the construction of the project, private firms should be involved through open public bids on projects of varying size.<sup>11</sup> In the contracts, the quantitative and qualitative parameters of the various projects should be specified in detail and inadequate or failed completion of the projects should incur severe fines.<sup>12</sup>
- Bearing in mind that the Hungarian tourist season lasts only 2-3 months, the project should be planned in such a way that the holiday center be able to serve as a venue for workshops and smaller conferences. In connection with this, it would be wise to create a national register of the buildings constructed in the framework of the new township

<sup>11</sup> "Public bids of different sizes" signifies the following: when calling for bids to develop the national road network, the Danes faced the problem of always running into only a few – and generally the same – big foreign companies able to meet the requirements of the biggest contracts. But, the Danes intended to see real competition and, naturally, the involvement of more Danish firms. Therefore they transformed the bids by cutting the contracts into smaller pieces. The result was that a large number of domestic firms bid on the projects, while MNC's became less interested as projects became too microscopic for them. We can call this nationalism introduced for the sake of (or on the pretext) of competition. The point, however, is that more Danes got jobs and more profit was kept in the country as a result of this policy. [Source: Karsten Jensen, Director, Marketing Unit, Road Directorate – Ministry of Transport – Denmark (on 12th April 2005)]

<sup>12</sup> Nowadays, there are absurd contracts in Hungary whereby a parking company has the right to charge 400 HUF per hour and at the same time not shoulder the responsibility of maintaining the parking places (e.g. clearing away snow in the winter-time). [See the parking near Bécsi kapu in Budapest.]

co-operation scheme and to create financial incentives for public institutions to hold their workshops in these premises.

Naturally, there is no guarantee whatsoever that the proposed project – or any other similarly financed investment – will ever be profitable. At the same time, it is not an exaggeration to say that such a project costs less than doing nothing and continuing to pay social assistance to people in need. It is not unlikely that such an investment would have positive spillover effects. As more and more firms try to get involved in the activities of the holiday center, there would presumably be a positive change in the ambiance and reputation of the village and its environs and fewer people would be wandering the streets. Such a project could become very important for the heart and mind of the whole township.

When it is a question of rural tourism, I personally cannot imagine it any other way than the above-described model – well organised and based on a principle of cooperative association. Even if such a project has no guarantee of success, it goes much further than the rental of rooms or property in the narrow gardens of rural houses or homesteads with no sewage systems and where neighbours can at any moment set their rubbish on fire, or where the shifting winds may bring "pleasant" perfumes from the manure and compost piles of neighbouring gardens, *etc.*

## **WHAT IS LIKELY TO HAPPEN BY THE YEAR 2015?**

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In this section, I review the ideas and proposals raised above and specify which of them have a good chance of coming true by the final date of 2015:

- \* Finding ways to help support medium-sized and larger Hungarian owned companies as well as the TPLC's suggested above is far more a question of political will than of money. Obviously, it is not a simple matter to regroup the development resources of the different levels of administration in favour of the above-mentioned economic players since it would injure well-established relationships and strong lobby-interests. It is not impossible, however, to imagine smaller or larger steps in the right direction, since political elites are happy to support popular ideas. The question is whether sufficient attention can be directed to these ideas to make it possible to "out shout" the credo – by now frozen into dogma – of the modern economic sciences on the "holy trinity" of motorways, FDI and GDP-growth.
- \* A new educational policy built on combining the development of declining regions with the support of the gypsy minority by focusing vocational training on those professions where there is a shortage of labour and on those (declining) regions where there is a large enough share of minorities that such a policy can be supported by any political forces. In addition, such a policy is not even expensive. What to young gypsies would represent a key to success and a potential rise in social prestige could also yield a great value to the whole country. Part of this value could be expressed in money, but part of it – the integration of gypsies into society – could not. On this issue, substantial progress could be made by 2015.
- \* It is true that the preferential development of public transport, of road networks and of public services in general (education, healthcare, culture, sports) in the declining regions would cost horribly large sums and the simultaneous realisation of all

these goals could not be envisaged even by a much richer country than Hungary. I am not so naive as to think that the present politico-economic lobby so much interested in the construction of high-speed road networks can, in the foreseeable future, be replaced by a new one interested in the development of fixed track public transport systems. But, the building up of new elements of the local and regional road network and the raising of the quality of existing elements – in the long-term – cannot be avoided. To start these developments in the country's least developed regions naturally needs political will. Otherwise, some of my proposals are comparatively low cost – e.g. attracting skilled teachers and doctors into and providing financial incentives to motivate them to settle in declining regions. And real progress could be achieved on these issues by 2015. What is most important – and from this aspect the two parts of the proposal (developing infrastructure and attracting teachers and doctors) are related to each other – is that the investment in and the management of new infrastructure and facilities may create new jobs and improve living conditions, thereby making regions more attractive places for other more highly-educated people to settle in.

- \* To preserve rural jobs in agriculture, the following possibilities can be imagined:
  - The re-forestation of low quality arable lands;
  - The strengthening of the new (energy-supplier) function of the sector (ethanol and bio-diesel production, windmills);
  - The development of activities requiring manual labour (extensive animal breeding, fruit and vegetable cultivation, wine).



- \* In order to promote the exploration of the above possibilities – and the general improvement of Hungarian agriculture – an agricultural strategy specified at the level of regions, counties and townships first needs to be worked out and put into effect. Second, it is necessary to enhance people’s inclination for co-operation and strengthen related kinds of entrepreneurial undertakings. But all this supposes a common understanding of goals, a large share of (public) funds and/or a substantial improvement in domestic purchasing power. Thus, I do not really expect this to come true by 2015. The afforestation of agricultural lands can possibly be considered an exception, since quite generous EU subsidies are being made available to this scheme that will doubtless be noticed and taken advantage of by a growing number of farmers.
- \* As far as jobs beyond agriculture are concerned, in this paper, I pleaded for the realisation of rural tourism within an organised framework (*e.g.* through TPLC’s), as I think it is the only feasible path for declining regions. Assisted by the state, these township ventures could – through achieving investments, management of the created infrastructure and providing services – create a significant number of new job-opportunities and fill the books with orders for regional firms. Such initiatives, however, can only be successful by 2015 if the townships themselves try – with determination – to initiate the creation of TPLC’s.

## CONCLUSION

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The depopulation of declining regions cannot be hindered by pleasant-sounding programs alone. It is necessary for money to be invested and a lot of it. It is necessary to determine whether the expected results are in harmony with the efforts that need to be undertaken. One has to weigh the costs of the proposed programs against the social and economic costs of doing nothing at all. Unfortunately, not all of the effects of the programs proposed here-in can be expressed in monetary terms. The lack of an adequate methodology for quantifying these effects however is not a reason to ignore their very real potential. Surely, they do not represent a panacea. Nonetheless, one does not have to be a social scientist to understand that providing job opportunities and good quality public services within easy reach of homes – thereby making regions liveable at the level of the 21<sup>st</sup> century – is the only way to stop rural emigration, the widening socio-economic gap and the increasing difference between the towns and countryside in opportunities for social and economic prosperity.

### *Abbreviations:*

CAP	Common agricultural policy
COMECON	Council for Mutual Economic Assistance
EU	European union
FDI	Foreign direct investment
GDP	Gross domestic product
HUF	Hungarian forint
MNC	Multinational companies
PPM	Parts per million
SME	Small and medium-sized enterprises
TPLC	Township public limited company

