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Contributions to the issues of regional economic growth and equilibrium as well as the regional policy

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Abstract

The geopolitical change of direction taking place after 1989 induced a number of positive and negative social and economic changes in Hungary (as in the other post-socialist countries). Among the latter changes perhaps the most depressive one is that in the past two decades the economic policy has not been able to achieve a sustainable and balanced economic growth either in the short or in the long term, or to manage the problems arising from its lack. The external and internal imbalance (at macro and mezzo levels) arising in this way is continuously generating serious tensions. This paper wishes to find an answer to the question what role the regional policy can play in creating local and regional economic equilibrium and in starting a relative convergence.

Keywords*:* regional policy, economic growth, new regionalism, regional equilibrium and sustainability

Introduction

The economic policy of Hungary of the past decades can be described by a number of controversies. Little wonders that the final outcome is mixed: in accordance with the ill-advised and whimsical improvisations (matching the election cycles) and, on the other hand, with the business cycles taking place in the world economy, the rate of Hungary's macroeconomic growth and the deviance from the equilibrium path keep changing from smaller to bigger; the sign and size of the domestic output margin keep changing cyclically while the exposure of macro- and mezzo-level outputs to external disturbances has also increased. At the same time the increasing tendency of interregional disparities in Hungary makes the necessity for transforming the regional policy and for

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harmonising economic and regional policy imperative. The paper wishes to reflect on the above issues and to draft the directions of a change of paradigm in regional policy.

Theoretical background – possibilities for a change in paradigm in regional policy

The regional policy must not be mistaken for sectoral macro-economic policy. It is a version of territorial policy, which is implemented at the level of regions. At the same time, however, the objectives of regional policies are of an ideographic nature, i.e. they have to be adjusted to the specialties of the given regions, in accordance with the particular problems of every region. There are three kinds of regional policy available for the policy makers for the implementation of the general objectives of regional policy (decreasing regional differences, the rational use of regional resources and factors of production, ensuring availability of public services for the total population of a region, etc.) (Amin, A. 1999):

1. The *Keynesean regional policy* dominated the development strategies of the period 1960–1980 and relied on the fundamental elements:

– income redistribution;

– the use of welfare policies in order to increase demand in backward regions;

– to support private enterprises in the form of government-guaranteed loans or by improving the infrastructure in order to encourage them to settle down in backward regions.

The Keynesean regional policy is currently heavily criticised for some of its deficiencies, such as the low level of productivity in the problematic regions; the use of this policy failed to stop the unequal development of regions struggling with problems, the dynamics of the peripheral regions depended largely on external demand, etc.

2. The *neoliberal regional policy* is one of the policies which have dominated the stage of regional development in the past twenty years. It focuses on the ideas of the deregulation of markets and decreasing the social intervention of the state. The strategies employed act towards the development of infrastructure, investment into programmes of vocational training and technology transfer. The weak points of this policy are as follows:

– the direction of funds towards weakly developed regions decreases, resulting in these regions losing the sources of development;

– these regions get involved in the global competition dominated by large international companies and regions capable of innovation – in which situation the majority of peripheral regions lose their chances for development;

– the regional policy has encouraged the mobility of production factors, which has led to an intensification of the migration of production factors, particularly labour, from the peripheral regions towards the central ones.

3. *Institution-based regional policy*, or *'new regionalism'*, appeared simultaneously with the establishment of the new regional institutions in the EU in the 1990s, in response to the deficiencies and failures of the policies described above. New regionalism explains the economic impetus of certain regions by the fact that there has been an increase in the importance of innovation and in cooperative forms of learning, particularly in the adaptation of the regions to the new economic conditions (MacKinnon, D. 2002). In this context a region is regarded as a source of competitive advantage. The innovative and learning capacity of the regions, among the conditions of the knowledge-based economy, determines their rise or fall. In consequence, this policy relies on the development of the technology factor, particularly innovation, as well as on quality factors related to labour (education, training/retraining programmes, etc.).

'New regionalism' is a heterogeneous direction with a great number of internal ramifications, according to which a region constitutes the fundamental territorial units of innovation, production, economic development and development policies. This enhanced focus on the role of the regional level highlights two processes which appeared in the 1980ies of the last century. One is the conceptualisation of the new post-Ford evolutions, in the framework of several geographical and economics directions. A fundamental feature of the post-Ford turning point involves a deep-going change in the economic area and the emergence of a knowledge-based economy. This phenomenon reflecting the logics of territorial-economic evolutions coincide with the political mobilisation of regional resources in the form of normative political regionalisation and of regionalism, which follows the logics of the political evolution of the past two decades: a weakening of the institutions of the nation state and the emergence of new forms of cooperation between the state and the players at various lower territorial levels.

The emergence of 'new regionalism' was directly triggered by the elaboration of the concepts and theories which are called territorial innovation models (Lagendijk, A. 2001). Among them the following are mentioned here: new industrial regions (Californian School), industrial zones (Italian School), innovative medium (GREMI School) and clusters. By means of contributions by these schools, new regionalism expresses the top-down perspective of regional development. The latter focuses on the relations between innovation and economic upswing within a globalised environment. Innovation is regarded as a collective form of learning, in which trust occupies a central position and connects networks consisting of companies, ensuring the participation of the companies in the process of collective learning. Trust develops under conditions of territorial neighbourhood and to a lesser extent under those of the territorial dispersion of the companies. The inter-company networks that have developed on the basis of trust become sources of learning and competitive advantages.

Actually, globalisation triggers the emergence of new forms of agglomeration based on the production of knowledge. Under conditions of the ubiquity of codified knowledge, the repositories of special, implicit knowledge create considerable non-material competitive advantages for themselves, for implicit knowledge is created and transferred by means of close connections between persons and companies. These competitive advantages are inherent in the social relations between companies and institutions localised rather at regional than at national levels. The accumulation of the connections capital and the untraded interdependencies form the main sources of learning. Learning facilitates regional adaptation to the changes arising in the outer environment, i.e. regional development. Collective learning processes, which are cumulative in the local community of companies, encourage the spatial agglomeration of companies.

The stability and continuity of inter-company relations as well as the spatial neighbourhood of the companies are the conditions for the accumulation of implicit knowledge and connections capital. Particularly small companies are encouraged to participate in the transfer of information and knowledge. New regionalism expresses an optimistic wave among regional policies, based on the positive examples of regional economies, such as the Third Italy and Silicon Valley, more exactly on a belief in the possibility of local and regional endogen development among the conditions of increasing international competition.

The political basis of 'new regionalism' is provided by the idea that the region as a social and political construct is a topic of normative-political regionalisation and regionalism. Normative-political regionalisation denotes the decentralisation of political power and the various scopes of authority belonging to the public sphere towards regional and local levels, while regionalism is an ideological movement which supports the priority of regional values and may be passive (latent) or active (represented on the stage of politics). In this context regional identity is applied as an endogen resource which promotes regional interests, the agenda and actions of the regional political players in the interest of strengthening the positions of the regions (both economically and politically).

The instrumental mobilisation of regional identity (in the form of endogen regional development strategies) for the purpose of increasing regional competitiveness must be differentiated from its political mobilisation, where regional identity itself determines the objectives of regional development (e.g. political autonomy – Lagendijk, A. 2001). Thus, as a result of political regionalisation and regionalism a region becomes a strategic place, which can be manipulated and becomes the site of the elaboration and introduction of regional policy projects (Lovering, J. 1999). The basis of collective regional aspirations is formed by regional and local identities mobilised by the *development coalitions* (Swyngedouw, E. 2000). This represents either *new governance structures* in the form of partnership relations between the regional and local institutions of the state, civil society and the business sphere, or local alliances between the economic and political players, which in certain situations may be coupled with local governments and/or trade unions.

Development coalitions may be progressive, open and play a positive role in regional development or regressive and closed, contradicting the fundamental democratic rules (ibid.). What's more, Lovering (1999) speaks about the emergence of a class of new regional services, which is constituted by consulting agencies (private sphere) and various development agencies (public sphere). In order to determine their roles in regional development, a number of fundamental issues are to be clarified at the level of every region: Who elaborates the regional projects? What are the objectives of regional development, and of the development plans? Whom do they benefit? What are their advantages? Swyngedouw (2000) suggests that the success of certain particular regions is directly connected to the presence of certain 'local' elites which are competitive at the global level. Their projects and activities ensure a positive development direction, while the lasting social-economic decline of certain regions can be explained by a lack of innovative local elites or the dominance of the traditional elites (ibid, Benedek, J. 2000).

The nature and structure and the alliance of these political and economic elites may boos the region. They are active as "place marketers", and are striving to maximise their own profits by maintaining certain activities or attracting them into the region, catalysing the existing markets and establishing new markets (Swyngedouw, E. 2000). We should not lose sight of the fact that in spite of the presence of innovative elites, economic upswing may be slowed down by obstacles to the emergence of growth coalitions: individualism, differing collective interests, competition among various elite groups, exclusion of certain social groups, the conflict between the old and the new elites. All these limit the efficiency of exercising authority, fragment local or regional development and result in a weak cohesion.

With the increase in the globalisation of economic relations and an increase in the mobility of capital, severe international competition has emerged between the various regions and localities of the individual countries. In this situation the development priorities of modern states are focused primarily on supporting regions and localities which are competitive at the global level. The competition between the regions is heightened by the advantages resulting from the localisation of management and control functions, the the introduction of certain production structures of the high-technology industry and services, the immigration of dynamic social groups with high purchasing power capacities, the opportunities for attracting state or international support and investment.

The integration of various regions or settlements into the communication infrastructure becomes of maximum significance and it increases their competitiveness at the global level. Thus, the scope of regional development strategies has spread from the strong and classic factors of development (capital, labour, technology, transportation infrastructure) belonging to the economic sphere to the weak factors such as human capital, the image of the region, the quality of life, etc. and to those that fit into other areas of society: culture and education.

In spite of the above, we cannot disregard the fact that regional and local development is strongly connected with events taking place at national or international levels. The changes in the organisation of global production may have very strong spatial effects, with new winners and losers. The global competition for attracting the limited sources of capital determines the orientation of capital towards the most beneficial locations as well as the reorganisation of the production process, more precisely the spatial distribution of the various economic functions: the control function, the research and development function become concentrated in the large urban regions, and the execution (production) functions into the peripheral regions.

The redistribution of functions and access by certain regions to control and/or research and development functions take place in a new accumulation framework (new historical formations, such as post-Fordism) and it redirects interregional relations and results in new inequalities. In this way each historical formation, each accumulation system can be described by some spatial inequality model and, the economic position of a region or locality in the spatial distribution of labour is determined by its successive roles in the various periods. In other words, in the course of the historical evolution of the regions, various development layers emerge and determine their current national and international economic roles (Peck, J. 2000). In this process the relations of the region with the central powers as well as the mode of its integration into the global system continue to be significant structural forces. Some authors argue for the necessity of the active involvement of the state in the regional development process, and their ideas are grouped around three arguments (Armstrong, H. and Taylor, J. 1993):

– Government control ensures the use of the instruments of regional policy in the most backward regions. The control refers to the model of the regional policy applied. If all the regions preferred the same policies, it would become impossible to decrease regional inequalities. There are three modes which can be used to ensure that public funds are concentrated in the most backward regions: the elaboration of own regional policy, providing regional policy scopes of authority for the regional and local authorities, maintaining the control of expenditure, by elaborating the support programmes for the regions and localities. The third possibility is presented by the government control of the expenditure of the regions.

– It is a lawful interest of the central power to solve the regional problems, for decreased regional inequalities represent a common interest and this decrease will benefit all the regions of a given economic area.

– Only the central power can ensure coordination of regional policy. Deregulation of economic, political and legislation powers is a key issue. The transfer of certain economic powers can be effected, however, their emphatic transfer will not solve the regional problems.

As mentioned above, taxation policies can be decentralised to a certain extent, but their complete deregulation would result in the appearance of budget deficits and in the accumulation of large public debts in the problematic regions, for their incomes are low, their competitiveness is limited and they do not attract investors. Naturally, the most developed regions would be in better positions, but the effects of regional policy would appear not only in the regions supported, for these are open economies, thus a variety of indirect effects also appear, among which one has already been mentioned: an important part of demand and of the increase in income will seep from the problematic regions into the developed regions.

Consequently, it is necessary *to coordinate the regional policies elaborated by the different players of regional development:* between the state, international organisations and the different levels of public administration (central and local) etc.

Causes and results of the economic depression

Lasting economic convergence is a function of three factors: growth rate, the sustainability of the growth rate and economic equilibrium (*Figure 1*). Those shaping the Hungarian economic policy have disregarded this axiom since the 1970s. The debt spiral of Hungary began at the same time as the oil price explosion of 1974. The continuous deterioration of our terms of trade and the increase in the imports price level (20% annually on average) were compensated by the government by means of continuous borrowing.

Our imbalance kept strengthening between 1985 and 1989 (while our net outstanding total debt increased from 6.5 billion USD to 14.9 billion USD, and gross outstanding total debt increased from 11 billion USD to 20.4 billion USD).

On the basis of the foregoing it can be understood that the domestic economy came to a state close to depression several times in the past decades. The slow stabilisation of the past years has been halted by the economic

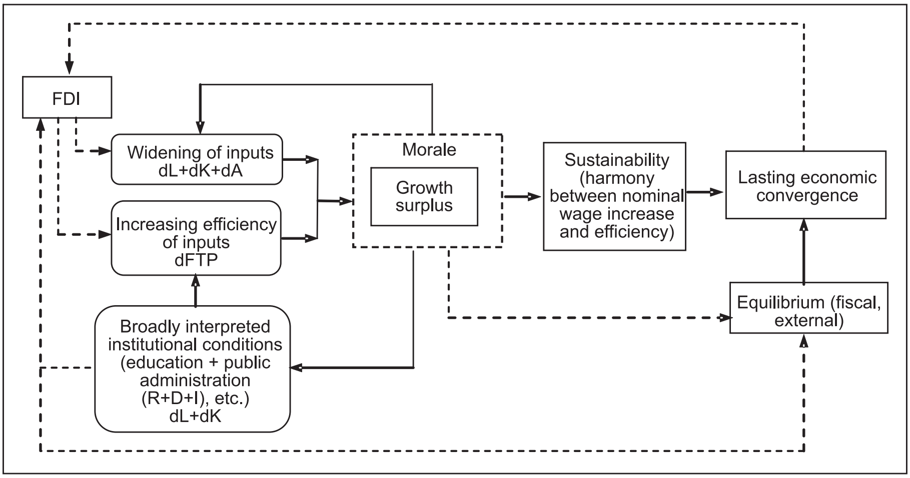

Fig. 1. System of conditions of lasting convergence. *Source:* authors' own work

policy deployed after 2002, and the outstanding total debt of Hungary began to increase again. Our position was further damaged by the financial crisis of 2008. The internal causes of our present situation close to depression can be attributed to the following (with some simplification):

a) Growth deficit, excessive desindustrialisation

The Hungarian economy has been struggling for more than three decades with the problem that the added value of our products and services is small. Since the beginning of the 1980s the nihilism of the Hungarian economic policy has set back employment and the output growth rate in Hungary *(Figure 2)*.

The decline of the processing industry has played a significant role in this in the past two decades. The service sector in Hungary has been unable to replace or outdo the employment or the production value of the industrial companies being closed down.

b) Lack of equilibrium

Thus (as shown by the above), the lack of equilibrium in the economy of Hungary is not a new phenomenon. The professional authors dealing with economic policy are debating at most the date of the acceleration of the process.

A lasting lack of equilibrium can be retraced, with some simplification, basically to three causes which are in close interaction with each other: the decreasing competitiveness and exportability of our products, the increase in consumption that has become disconnected from the economic growth rate and the unfavourable changes in exchange rates. The lack of imbalance (in the budget and in the balance of foreign trade) thus arising has resulted in twin deficits.

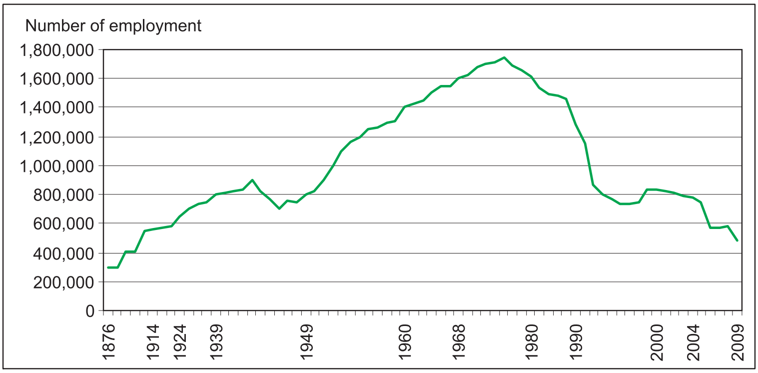

Fig 2. Development of the number of those employment in the Hungarian industry (1876–2009). *Source:* authors' own work

c) Lack of sustainability

The growth path of the Hungarian economy has been hindered in addition to the errors in the economic policy of the past years by the increasing obligations in payments in interest. The high state deficit incurs large redemption burdens, which narrows the range of possibilities for action of the budget *(Figure* 3). Part of the close to 1,100 billion HUF, which is at present used to pay interest, could be spent on productive investments and other productive expenditure (health care, public education, etc.).

While leaving the expenditure unchanged, tax burdens could be considerably reduced (7.5 times as much could be spent on housing support as in 2010, or more than twice as much could be spent on family support as in 2010, or the value added tax burden could be reduced by nearly half, or one third of the interest expenditure could be sufficient to eliminate company tax completely, or personal income tax could be reduced by more than 40%, or the social security contributions of employers and employees could be reduced by more than one third, thus reducing the tax wedge further and stimulating the labour market).

d) Moral affliction

The recognition that sustainable economic growth can hardly be set in motion without stable moral foundations is not a new phenomenon. The problem is not typical to Hungary, but the social and economic consequences of the deterioration of the general conditions are serious in Hungary.[3]

[3] In Europe more than one third of the workers of large companies asked were willing to offer cash or other presents for clinching a deal, one quarter do not trust the ethical behaviour of the company management. Hungary is the second after Russia on grounds of the occurrence of malpractice. In the framework of the survey conducted in 25 countries in Europe, more than 2,300 employees were asked from workers to top executives (For the complete survey, see http://www.ey.com/HU/FIDS.)

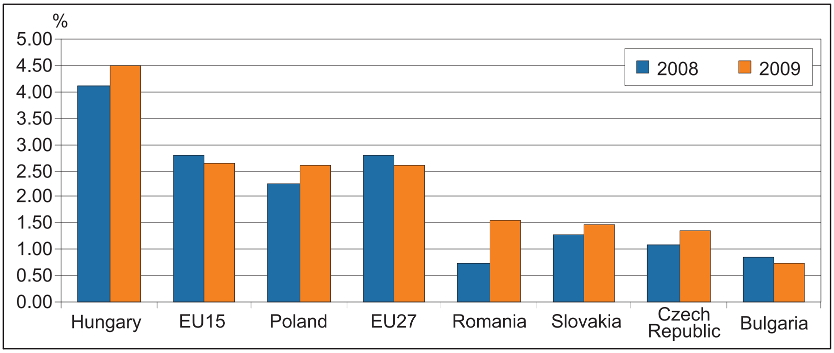

Fig 3. Interest expenditure as percentage of GDP 2008–2009.
Source: EU Commission – AMECO

The above deficiencies result in problems at the levels of both the national economy and of regions (*Figure 4).*

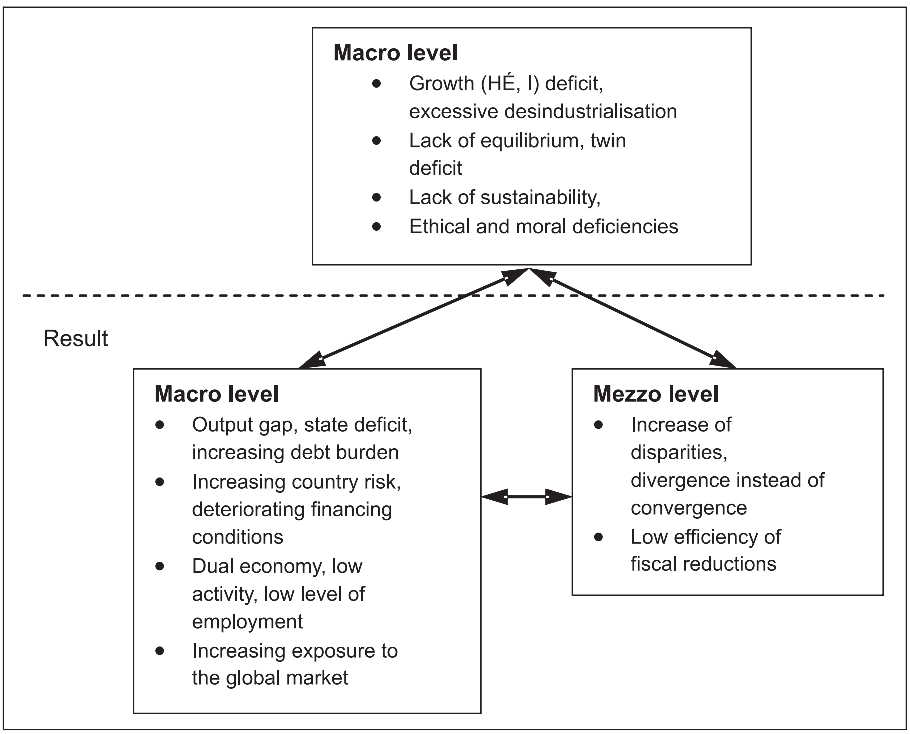

Fig 4. Macro- and sub-national results of depression. *Source:* authors' own work

Consequences of the economic depression

In the following, regional (mezzo-level) problems will be discussed, as flowing from our topic.

a) Increase in disparities, divergence instead of convergence

The transition to the market economy (1989) found the Hungarian society and economy in regionally differing situations. The real and latent regional differences are not new. In the early and mid 1980s, with the deterioration of the competitiveness of the industry, mono-structural regions came into difficult positions (a good 20 years after the processes appearing in Western Europe due to similar causes).

As is well-known, though the party and political management of the times were aware of the problems, it took no steps concerning the merits of the situation (measures taken for the sake of keeping up appearances were born instead).

The change of economic and geopolitical direction increased the regional differences further, for the counties took advantage of the opportunities arising from the changes in room for action in different ways (due to external and internal causes).

The investment and employment dynamics of the regions developed also depending on the sectoral structure of the regions (existence or lack of the driving sectors). Long-term low investment was matched by long-term low employment (although after 2009 the regional distribution of the unemployment rate decreased somewhat, it was thanks much more to higher public employment in the backward regions than to an improvement in the labour market situation (*Figure 5*).

As a result, in the labour market of the transformation starting after 1990, the West-East direction unemployment slope emerged in Hungary; and a more than tenfold difference came into existence between the regions with lower and with higher unemployment rates.[4]

The different output paths of the regions can be explained by the different personal consumption and investment as well as by the external demand. Our empirical investigations show that the volatility of regional output has been higher than the volatility of the output gap of the Hungarian macroeconomy in the past years (*Table 1).* Net exports are primarily responsible for the short-term fluctuation in output *(Figure 6*).

[4] The number of those employed in January 2011 – in the age group 15–74 – was 3,743,000, which exceeded the figure for the previous year by 0.5% (KSH, 2011). The number of unemployed aged 15–74 was 487,000, 8,000 more than a year previously. The unemployment rate of 11.5% was basically identical to that of the previous year (male unemployment rate of 12.0%, and female unemployment rate of 10.9%).

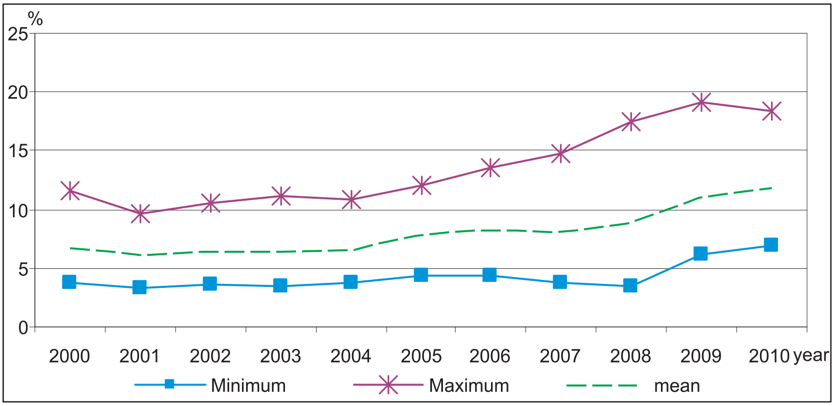

Fig 5. Distribution by county of the unemployment rate in Hungary.
Source: authors' own work

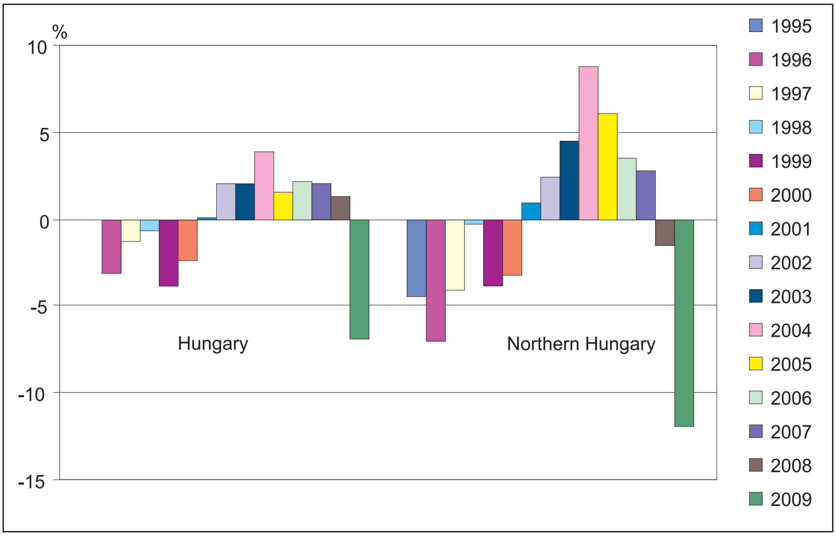

Fig 6. Output gap path. *Source:* authors' own work based on KSH data

This means that the government measures limiting or expanding consumption have a smaller effect influencing the incomes of the population than the effect of monetary policy affecting net exports (assuming unchanged demand). And changes in net exports depend on the economic structure of the given region (to a considerable extent on the cyclical positions of the multinational companies established in the region).

Table 1. Annual changes in output gap, %*

Year	Hungary	Regions						
		Central Hungary	Central Transdanubia	Western Transdanubia	Southern Transdanubia	Northern Hungary	Northern Great Plain	Southern Great Plain
1995	-0.08	15.67	-9.57	-15.26	-8.60	-4.48	-5.58	-6.61
1996	-3.09	3.97	-9.17	-12.20	-7.38	-7.04	-4.78	-4.19
1997	-1.29	1.34	-1.21	-6.99	-3.58	-4.14	-1.34	-1.47
1998	-0.63	-2.29	2.98	0.43	-0.66	-0.31	-0.27	0.83
1999	-3.87	-6.45	-2.96	3.69	017	-3.82	-6.56	-1.83
2000	-2.41	-5.25	0.99	5.12	0.31	-3.22	-4.09	-0.59
2001	0.12	-1.87	2.02	1.21	3.19	0.94	2.91	0.51
2002	2.09	1.89	-2.23	2.73	5.14	2.39	3.65	2.91
2003	2.01	-1.64	2.83	8.48	5.16	4.50	6.51	3.04
2004	3.82	0.07	7.76	7.24	5.43	8.83	6.97	5.93
2005	1.50	0.09	4.67	0.66	1.03	6.03	2.19	1.88
2006	2.13	2.59	1.42	2.74	-0.66	3.55	2.10	0.67
2007	2.00	2.52	3.83	0.66	0.35	2.76	1.13	0.11
2008	1.28	2.35	0.90	0.29	0.48	-1.48	-0.19	1.67
2009	-6.96	-3.61	-11.54	-11.64	-7.56	-11.95	-9.16	-7.71

* The literature offers several definitions for output gap (see P. Kiss, G. and Vadas, G. 2005). Our data use the results of calculation based on the actual potential GDP (GDP_{pot} – [GDP_{act14} / GDP_{act1}] x 100). Source: Authors' own calculations based on KSH data.

b) Low efficiency of fiscal moves

The EU funding appearing in the Hungarian budget (1999: 3.3 billion HUF; 2010: 706.8 billion HUF, data at current price) and expenditure (1999: 14.9 billion HUF; 2010: 804.8 billion HUF, data at current price) increased dynamically between 1999 and 2010.

Although the time period is relatively short (therefore it is hardly possible to draw considerable consequences), it can be clearly seen that the impact of the support arriving in Hungary on increasing the GDP lags behind that of the EU average (*Table 2*).[5]

This has several causes, such as:

– 'brainstorming' in the course the allocation of funds;

– the majority of funding (60–65%) had the impact of increasing one-time demand or improving the community infrastructure and not of improving the economic potential, and within that there was a high rate of 'soft' projects. By contrast, the fundamental objective of the EU cohesion policy is to enable the regions with a low performance to converge. From this it follows

[5] Under the I. National Development Plan in 2004–2006 Hungary had close to 700 billion HUF at its disposal including national co-financing from the structural funds of the European Union, and the funds provided for the realisation of about 20,000 projects in Hungary. The country was able to use almost all (99%) of the said EU funding in the period examined. However, the results is worsened by the fact that the beneficial financial performance incurred excess expenditure from the Hungarian budget of approximately 35 billion HUF. Among the reasons the National Auditing Office highlighted deficiencies in the harmonisation of the major national economic objectives, changes in certain objectives and the fact that while the institutions providing the support concentrated on the as complete as possible use of the funds, they did not pay appropriate attention to their efficiency (due to non-performance of winning projects it was necessary to have reserve developments, which cost more for their rapid production; there were also examples where developments already began had to be funded completely from national means due to suspicions about mismanagement). The convergence of Hungary to the EU average is not progressing as we would have liked it to: the per capita GDP increased only 1% between 2004 and 2009 as a result of EU funding. At regional level the picture is even more disillusioning: while the more developed region of Central Hungary developed considerably, the positions of the six convergence regions did not change significantly, what's more Northern Hungary, Northern and Southern Great Plain and Southern Transdanubia entered the group of the twenty poorest regions of the EU. Examining the environmental, healthcare and certain education investments as well as regional development, it was found that we were coming closer to the EU development level, however, in the short term they did not result in economic growth. The situation was further complicated by the size of the funds and the compartmentalisation of their use, which resulted in the fact that we were only able to achieve partial results even in the realisation of the nicely sounding objectives. It can also be seen that while unemployment was soaring, in the development programs the effect of retaining jobs prevailed. In trainings promoting finding employment, approximately half of those completing the training and only 10% of the disadvantaged found jobs (ÁSZ, 2011).

Table 2. Impact of support on increasing the GDP

Country	GDP/EU * support, %	Contribution to increase the GDP in %		
		1989–1993	1994–1999	2000–2006
Portugal **	~ 3	3.9	4.6	6.1
Spain **	~ 1.5	2.9	3.1	4.2
Greece **	~ 2.6	4.3	5.6	6.1
Ireland **	~ 2.8	n.d.	8.9	8.6
Hungary ***	~ 2.1	–	–	1.2

* AGENDA 2000 (max. 4%). n.d. = no data
** The Role of Fiscal Transfers for Regional Economic Convergence in Europe, No. 1029.2009.
*** Between 2004 and 2006. *Source:* authors' own calculations.

that support is efficient when it generates additional output (compared to the situation without support).

Empirical investigations and analyses prove also in this respect that there are considerable differences (besides positive examples low absorption efficiency is not rare):

– granting the funds took place on the grounds of political interests, significant portions were not used for investments supporting long-term convergence, and thus their impacts are also weak;

– funds are not additive, but have a substitution character. In the majority of cases they appeared not as additional funds but were substituted for former private or government investments (Kocziszky, Gy. 2010).

Our lagging and depressed regions were caught in a trap, for the efficiency of the fiscal moves of the past years (partly due to their soft nature and partly to their level being under the sensitivity threshold) was low, the injections of capital proved insufficient to generate real convergence (that would have required a much stronger fiscal impetus).[6]

Beyond the macro- and mezzo-economic conditions of the real and nominal convergence of the regions in Hungary, the past years were lacking in sectoral and local economic policy harmony as well as in the underlying moral background. Part of the programmes had a virtual impact and the supports were used for 'political show schemes.

An economic policy using a variety of fiscal and monetary instruments exclusively is insufficient for the management of regional problems, for the various shocks affect the counties to different extents.

[6] There are no significant changes in the leading pack or in the lower third of the human development index (compared to 2000). According to the figures for 2009 the positions of Budapest (0.8739), Győr-Moson-Sopron county (0.687) and Fejér county (0.669) are the same, while those of Nógrád county (0.600) and Szabolcs-Szatmár-Bereg county (0.587) deteriorated further somewhat.

Desirable directions of a paradigm change in Hungary

The mainstream of economic policy has been obsessed with growth in the past three decades and this view was mostly adopted by the authors of studies on regional growth and convergence as well. Today, however, it is more and more recognised that economic growth (even in such export-driven economies as Hungary) can be primarily achieved by an increase in productivity and added value and not by obtaining an increasing share of the global markets.[7]

The makers of the Hungarian economic and regional policy are facing a task that is not slight: they have to reduce low employment and the lack in output arising from the deficit of added value simultaneously. This will, however, require a transformation of regional policy, which is part of both territorial policy and of economic policy at the same time, i.e. a genuine change of paradigm. Hungarian regional policy re-visited has to meet several requirements at the same time.

Condition 1: it has to be integrative, that is it has to arrange the elements of sectoral policies referring to regions in a multiplicative way along realistic objectives and funds; it has to meet top-down and bottom-up planning principles simultaneously.

Constructing regional policy is not independent of the objectives, instruments, resources of the sectoral and other cross-sectional policies (budgetary and monetary) or of the national economy-level allocation and re-allocation mechanisms (*Figure 7*).

Condition 2: sustainable and realistic regional growth objectives have to be set. The objectives for a given region have to achieve improvements in economic growth and employment simultaneously.[8]

That is why the empirical literature on convergence devotes more and more attention to conditional (relative) convergence (Barro, R. and Sala-i-Martin, X. 1992; Romer, P.M. 1986), that is instead of 'catching up' it is increasingly the lasting growth rate that is determined by the own equilibrium path that comes to the foreground.

[7] Economic widening is determined by the fight for a share that can be obtained in the global markets of processed goods. Economies showing external surpluses are generally declared to be 'competitive', taking no account of the development of their economic growth or productivity. Trade balance is regarded as the major index of a country, as if it were only a company. In reality, however, the two have hardly anything to do with each other. Trade balance means simply the difference between investments and domestic savings, or in a more general sense, the difference between aggregate expenditure and total output.

[8] This will probably be a prolonged process without the domestic industry (particularly the processing industry). It must not be forgotten that the high-tech (nano-, bio- etc.) sectors produce high added value, have a low employment capacity and are located in highly concentrated areas even in the developed countries.

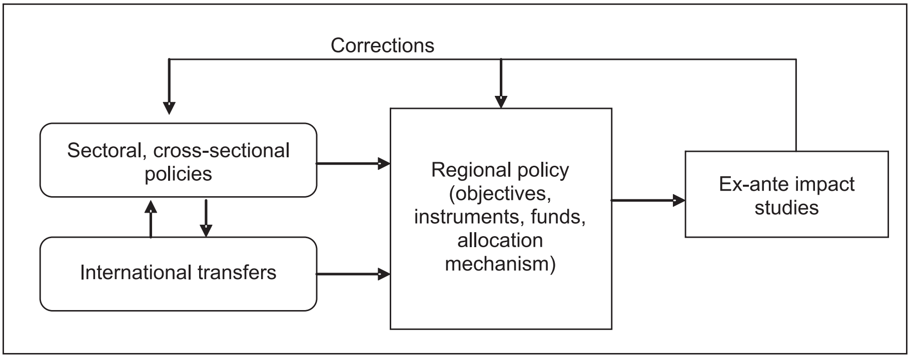

Fig 7. Logical process of constructing regional policy. *Source:* authors' own work

Creating the state of equilibrium at a lower level uses the empirical experience that in peripheral regions the likelihood of producing a high added value is lower due to the lower human potential index, therefore, the increasing employment should be put in the foreground. This can increase the income of the population even in the short term, and local consumption can be increased without raising inflation.

Condition 3: expected consequences of regional policy are to be supported by ex-ante impact studies; its system of indicators and its methodology have to be elaborated.

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