

## **Governance, strategies and policies in the Budapest Metropolitan Region**

**How to enhance the city's competitiveness**

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# **Governance, strategies and policies in the Budapest Metropolitan Region**

## **How to enhance the city's competitiveness**

### **ACRE report 10.4**

Tamás Egedy  
Zoltán Kovács



Accommodating Creative Knowledge – Competitiveness of European Metropolitan  
Regions within the Enlarged Union

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## ACRE

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## EXECUTIVE SUMMARY

Current report (WP10) summarises the most important outcomes of analyses on the characteristics of administrative structure, strategy building, policy- and decision-making processes in the Budapest Metropolitan Region. According to the most important findings of previous work packages the methodological part of the report also contains a refinement of ACRE theoretical framework which was elaborated in the preparatory phase of research. In this section of report we briefly revisit Florida's theses on the mobility of creative class and the role of soft location factors and provide some elements for debate on urban competitiveness.

According to the new statistical database available on metropolitan level we can conclude that in the period between 1999 and 2007 several remarkable positive changes took place in the creative knowledge sector not only in Hungary, but also in the Budapest Metropolitan Region. In this sense it must be underlined that the weight of Budapest within the creative knowledge sector of Hungary has been steadily increased in this period.

According to our results about location factors we can state that creative employers and employees are predominantly attracted by the economic advantages offered by the metropolitan region, like *job opportunities* and *favourable labour market conditions*. For managers the large market (enterprises, clients) is the strongest attraction. The second greatest attraction for the creative class is the use of *education and training* possibilities provided by universities. Thus, predominantly hard factors influence the intention to come to the metropolitan region. Decisive motivation factors for creative employees to stay and settle down in Budapest are the *cost of dwelling*, the *size of the residence* and *proximity to public transport* as hard factors. Among soft factors the *quality and atmosphere of the neighbourhood* and *personal safety and public security* can be mentioned. Employers and managers primarily consider also hard factors in the course of site selection. The leading aspects are the *price of office*, the *size and infrastructure of office* and the *accessibility both to traffic lines and public transport*. *Informal links* and *good services* are the most important soft location factors for entrepreneurs.

Summarising the results on the *strengths of Budapest* job offers and career opportunities; cultural life and leisure, sport and entertainment opportunities; and services, retailing and shopping networks and gastronomy were judged very positively. The residential environment, geographical location and cultural milieu belong also to the strong points of Budapest. Among the *weaknesses of Budapest* the taxation system and high living costs should be mentioned. Considering the role of soft factors among the weak points of Budapest the lack of tolerance, the low level of the political culture, and the environmental problems of large cities (i.e. pollution, cleanness and noise) can be mentioned.

The post-socialist period can be divided into three stages by distinguishing basic political, legal and public policies: a) The vacuum period, the basic political decisions and the

introduction of detailed legal regulations in the early 1990s; b) The adaptation period from the introduction of new legislations till the emergence of public policies, in the mid- and late 1990s and; c) The adjustment period marked by the emergence of national and local policies, from the late 1990s onwards. According to these policy development periods at least 4 governmental policies could be distinguished in Hungary: i) Development policy for smaller settlements (1990-1994); ii) Re-centralisation (1994-1998), iii) Continuing re-centralisation, strong countryside development policy (1998-2002); iv) Emerging decentralisation by developing larger cities within the country (2002–present day).

The most important development policy on national level in Hungary is the *New Hungary Development Plan*. The New Hungary Development Plan (2007-2013) determines those development poles where conditions of economic development are very favourable and these centres (predominantly major cities) could play an outstanding role in the competitiveness of certain regions. A comprehensive purpose of this so-called Pole Programme is the promotion of internationally competitive clusters, to bring about specialisation to end up with innovative activities yielding high value added, to create close cooperation between corporations, universities, R&D centres and local governments and to reinforce the part played by the regions through the development of pole cities. The programme is expected to result in 5-13 successful pole innovation clusters in Hungary by 2013 including 8 pole cities and Central Hungary Region as well. According to the Pole Programme in Central Hungary Region the so-called *Budapest Innopolis Development Pole Programme* has been implemented since 2006. The report provides detailed information about the strategic objectives and concepts, institutional and organisational structure, the emerging clustering processes and other financial issues of the Pole Programme. We also introduce the horizontal and vertical sub-programmes of Budapest Innopolis Development Programme containing the main thematic strategies (MediPole, ITT Pole and EcoPole). The first experiences and emerging problems are also highlighted in the report.

During the socialist era the sub-national governments were essentially deconcentrated units of the central government and had little or no financial autonomy and decision making power. The change of political system caused a fundamental change in the governmental and administrative system of the country. In 1990 self-governance was re-established and communes enjoyed equal rights independently from their size or legal status.

In the urban region of Budapest an even more fragmented system developed, as the earlier very powerful middle tier, the county self-government, was substantially weakened in 1990. Pest County has practically no power to influence any of the decisions made by the settlements. As a result the settlements around Budapest became very strong, having the right to decide by themselves about conditions for industrial, service or residential development, including decisions concerning the zoning of land.

In Budapest a *two-tier administrative system* evolved where spheres of responsibility between the city and district governments overlap. In some respects Budapest remained centralised (strategic development of the infrastructure, public transportation) while others such as the distribution of resources followed a decentralised model. Conflicts were developed over the clashing interests of the districts and the City Government on the one hand, and between Budapest and the agglomeration settlements on the other. In this very fragmented system the

importance of the sub-national level was acknowledged in 1996, which established development councils at the regional level.

Despite the democratisation process having taken place since 1990 the *policy-making system in Hungary is still relatively centralised*, with basic decisions made by the state government (the prime minister and ministries), which is the primary initiator of legislation. In Hungary in the policy-making process the objectives and development trends determined by the EU have an imperative force. This way the governmental decision making relies basically upon the guidance and directives issued by the EU when planning steps of macroeconomic development.

The regional level has not had any traditions in the Hungarian decision making process. In Hungary the counties were almost always the dominant territorial units of the state. There are altogether nineteen counties and Budapest, and they have a subsidiary role in that they provide public services that municipalities (in Budapest districts) are not capable of performing. The seven NUTS II regions operating currently were formed artificially after the change of regime via adaptation to the structure of regional policy of the EU, on the basis of the traditional county system of administration. Central administration provides *meagre financial source for the operation of the regions*, so they still have limited influence in decision making, dealing predominantly with coordination of regional and urban development.

Local governments (in Budapest the districts) are the most important players in local decision making. They maintain contacts with the ruling authorities representing the executive body of national government, handling and controlling governmental projects, and in Budapest with the City Government. On the executive and authority level municipal governments are represented by the Mayors' offices and its sectoral offices. Local governments (in Budapest the districts) often create *independent organisations* in the possession of their own, which appear on the market as independent economic units. This is advantageous because they can get rid of political skirmishes when implementing the project cycle and leads to a closer cooperation with the stakeholders of different levels.

National government supports the development of regional and local strategies and programmes because of the key role local actors play in identifying solutions for local problems and in recognising locally specific opportunities for growth. However, while regional and local development interventions are widely seen to be of value, the measurement of their progress and impacts is often too weak to enable evidence-based policy improvements.

The elimination of the power of the middle tier (counties) and the weak competence of the regions resulted in strong competition between the municipalities and the settlements of the surrounding area. Similarly, in Budapest the relatively weak position of the Municipal Government over the districts resulted in strong competition between these local governments. Conflicts in the Budapest Metropolitan Region exist nowadays between Budapest and its districts (e.g. use of green areas and building rights), between Budapest and the surrounding settlements (i.e. agglomeration) because of spill over effects, between public actors and private developers over shopping centres and between public/private actors and the

local residents. However, territorial conflicts are still relatively peaceful in Hungary and Budapest compared to Western European counterparts.

It can be stated that *in the development strategies and policies priority is given to the knowledge economy* and creative industries play a subordinated role. According to our analyses it is ICT that reached the most dynamic development in Budapest over the past years due to policy interventions so the advancement of ICT recognised in the new development programme is in accordance with results formulated by ACRE project.

Stakeholders expressed a *heavy criticism about the decision making process*, when they claimed that in Hungary SMEs are not supported sufficiently by the economic policy (an overwhelming part of the firms in the creative knowledge sector fall into this category) and it is unable to create favourable economic climate and conditions for the development of creative and knowledge-intensive industries.

In the course of the elaboration of strategies and policies reconciliation with the representatives of corporate system, of professional and civic organisations is a rule in the preparatory phase. Based on the in-depth interviews with the managers and network actors made in the empirical phase of ACRE project it should be stated that *the process of reconciliation is far from being harmonious* in Hungary and in the BMR. Both SMEs and representatives of local residents feel that they have little influence over the matters in the planning phase and their voice does not get through or great efforts are necessary to push it through.

In the course of the professional interviews conducted within WP10 it has become clear that *cluster development in Budapest turned from the initial, artificially generated process into a spontaneous and bottom-up one* using the corporations' own resources. Cluster development is becoming an organic bottom-up process with the recognition by cluster members of the opportunities offered, this process however has not yet descended to the level of micro- and small-sized enterprises.

# 1 INTRODUCTION

The ACRE project started in October 2006 can be subdivided into 4 main research stages. In the first, preparatory stage, between October 2006 and March 2007 the researchers delivered a literature review on the theory of creative and knowledge-based industries (WP1), the consortium partners analysed current paths of creative knowledge regions and presented them as local reports with a similar structure (WP2) and on the basis of these reports a comparative study could be produced, making conclusions about similarities and differences between the selected city regions (WP3).

The second stage commenced in April 2007 could be labelled as the empirical phase of investigations as the research teams have attempted to reveal the part played and position occupied by the creative knowledge sector within the studied metropolitan regions applying quantitative and qualitative methods (questionnaire survey, in-depth interviewing). Altogether three target groups of experts within the creative knowledge sector are being involved in the survey and interviewing: i) highly qualified specialists and workers with university degree in creative knowledge sector; ii) managers occupying leading positions in creative and knowledge-based firms and iii) highly skilled transnational migrants.

In the first phase of empirical research a questionnaire survey among graduates and workers engaged in the creative knowledge sector was carried out in order to investigate their opinion about local conditions. In the following period professional in-depth interviews were conducted with leaders of firms (managers, managing directors) to understand the drivers behind the decisions of the managers of selected knowledge intensive and creative industries to settle at a certain location in the metropolitan region and to estimate the relative importance of the location factors that played a role in their decision making process. The object of the last empirical phase was to recognise the drivers behind the decisions of the transnational migrants (ex-pats) to settle at a certain location and at the same time to estimate the relative importance of the location factors that played a role in their decision making process. For better understanding of the behaviour and decision making process of ex-pats in-depth interviews were carried out amongst transnational migrants living and working in Budapest. The results of empirical research were summarised in different work package reports (WP5, WP6 and WP7 reports)

In the third stage of research started in November 2008 the most important findings of empirical phases had to be summarised and analysed. The main objective of this work package (WP8) was to understand and compare the different (spatial) orientations of the target groups we distinguished and the differences between them in terms of the relative weight they give to the various factors that are regarded to be relevant to them. The integration had to result in an understanding of the strong and weak points of the city region regarding their capacity to accommodate creative knowledge.

In the fourth and still running stage started in September 2009 on the basis of the outcomes of the statistical research and the surveys which have been carried out, as well as on the basis of the three synthesis reports which have been written current policies and strategies will be confronted with actual dynamics in the regions involved. The most important outcomes of these analytical works are summarised in the current work package report (WP10). The report can be subdivided into six main parts. In the introductory chapter the main stages and phases of research are introduced briefly. The second chapter provides a short methodological description to the current work package together with refinement of ACRE theoretical framework and governance approaches. After a short introduction of economic context with special emphasis on the state of creative knowledge sector in the Budapest Metropolitan Region the third chapter highlights the relevant economic development strategies and policies. In the fourth chapter the administrative structure is analysed and main stakeholders of strategy building and policy making processes are identified as well. The fifth chapter contains findings of the critical evaluation on strategy and policy making processes referred to the ACRE result. At the end of the report a short concluding chapter can be read.

## 2 THEORETICAL BACKGROUND<sup>1</sup>

The conceptual and theoretical framework underlying the ACRE programme has been presented in length in the WP1 (Musterd et al., 2007). It is based on a critical review of literature on the role of creativity and knowledge in present and future economic development and the conditions for a successful development as a ‘creative knowledge region’. This review of literature, which has also pointed at gaps in knowledge, has framed the analysis of each case study in the following WPs, and has been refined over the course of the work.

A number of key questions have been raised in relation with this conceptual and analytical framework. They are addressed throughout this report and will in particular guide the analysis of policies and strategies, which includes the analysis of policy documents and interviews with stakeholders.

Key questions to be taken into consideration in the analysis of policies and strategies include the following ones:

- What is the role of creativity, innovation and knowledge in the metropolitan economic development strategies and visions in each case study?
- To what extent do local and regional governments in the case study regions want to build on existing regional strengths, and to what extent do they look for new strengths with regard to economic specialisations?
- What are the different types of policy approach adopted in different cities (e.g. promoting cultural quarters/infrastructures in the physical sense; or promoting creative industries in their industrial sector sense)?
- What is the role of ‘soft’ location factors in metropolitan economic development strategies when compared to the more traditional, ‘hard’ location factors?
- Do the metropolitan economic development strategies specifically address the conditions for attracting an international skilled labour force?
- Which regional geographic and administrative scale is the most relevant for regional competitiveness when aiming for ‘creative knowledge regions’? Should there be a focus on core city development or on the metropolitan regional level?
- To what extent can we speak of an integrated regional strategy, and on what geographic and administrative scale level?
- To what extent are the economic development strategies and visions embedded in broader urban development strategies and visions? Are economic development policies connected to

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<sup>1</sup> This section has been written by the ACRE Toulouse team (Hélène Martin-Brelot, Elisabeth Peyroux, Denis Eckert, University of Toulouse), with help from the Leipzig team (Bastian Lange, Leibniz Institute of Regional Geography). The section is common to all ACRE reports within Work Package 10.

regional spatial development policies, housing market policies and/or policies to attract and cater for the desired 'talent pool'?

- How and to what extent do existing policies and strategies take into consideration issues of social cohesion and social integration?

The answers to these questions are informed by the refinement of the ACRE theoretical framework.

## 2.1 Refinement of ACRE theoretical framework

The WP1 has acknowledged that many authors have come to the conclusion that 'creativity plays an outstanding role in urban and regional development' and recognised '*the increasing coming together and co-mingling of technological innovation, cultural creativity and governance as the driving force of urban development in the 21st century*' (Musterd et al., 2007: 6). In relation to urban competitiveness theories, at least two important interrelated ideas – mostly supported by R. Florida – have been explored. The first one suggests that policies should concentrate on their attractiveness towards individuals rather than towards companies. As a consequence, cities should strive to improve urban atmosphere – e.g. increase openness, tolerance – and pay much less attention to hard classical location factors.

The ACRE analytical framework has been refined over the course of the work. In light of the ACRE empirical results, we are now able to revisit Florida's thesis on the mobility of people composing the 'creative class' and on the drivers that lie behind their decision to live in a city (2.1.1). Statements about the difference between hard and soft factors, creative and knowledge workers and above all the relatively trivial expectations of the respondents are used as first elements to fulfil the debate about urban competitiveness and policies (2.1.2).

### 2.1.1 *Revisiting Florida's thesis on the mobility of the creative class and the role of 'soft factors'*

One objective of the ACRE programme was to test R. Florida's hypothesis on the mobility of highly skilled creative knowledge workers. According to the author of the '*Rise of the creative class*' (2001), these people would be increasingly attracted by places combining high levels of technology, talent and tolerance. In other words, the classical 'hard' location factors would lose importance compared to the increasingly prized 'soft' location factors. The latter relate to the global atmosphere of the city such as the openness, the cultural and ethnic diversity.

Each of the three surveys conducted from 2007 to 2009 among the target groups of employees, managers and transnational migrants aimed at answering the following questions:

- What are the main drivers behind their decision to locate in the city where they currently live?
- What is the relative weight of hard and soft location factors in their decision-making process?

It appeared quickly that reasons related to what we called the '*personal trajectory*' and reasons linked to classical factors such as *employment* or studies opportunities were highly significant to explain the surveyed people's choice to settle at a particular place. Soft factors seemed to weakly influence their decision.

By compiling the results of the first quantitative survey conducted among employees in the 13 participant cities, we indeed found out that 55 per cent of the respondents were born in the city or metropolitan region where they currently live. The place where higher education has been achieved seems to play an even more important role in their location choice, as 63.6 per cent of the sampled employees obtained their highest degree locally, i.e. in the city or metropolitan region where they now reside.

Taking into account this 'personal trajectory factor' – measured by the places of birth and studies of the surveyed – allowed us to give more insight to the issue of the attractiveness of a city. We could indeed differentiate the people who already had an anterior link with the city and those who had none. Considered as 'creative migrants', the latter only represent 25 per cent of the sample. For them as for the rest of the sample, *the job-related hard factors play the most dominant role in the selection of a place of residence.*

*Soft factors* only play a very marginal role to attract creative knowledge workers to a city, as only nine per cent of the people coming from outside the region cite this type of reason in a first position. They seem however important to retain them on the long term. Indeed soft factors tend to have more importance if respondents are living in the city for more than one year. As an opposite the role of hard factors is continuously decreasing with the time spent in the city. This result implies that hard factors work more as a reason for mobility (why coming), whereas soft factors are more the reason to stay (why not leaving the city).

Qualitative surveys among managers and employers in creative and knowledge industries confirmed the major role of hard factors, especially the availability of a skilled labour pool, which is often correlated to the presence of higher education institutions in the region. Access to clients and supporting services is also crucial and depends on the size of the city as well as on an efficient transport system. Entrepreneurs also insisted on the quality of the working environment and their professional networks for succeeding in their business.

The presence of universities and higher education institutions constitutes the major attraction factor for transnational migrants. Employment opportunities come up as an important reason to settle in the city. The drivers behind the decision to stay also relate to personal links (friends, family). We could also notice the relative importance of a strong image of the city as centre of creativity (Milan, Barcelona...) or centre of technology (Toulouse, Helsinki...).

These first outcomes thus do not confirm R. Florida's hypothesis of a highly mobile 'creative class'. On the contrary, the highly skilled creative and knowledge workers surveyed within the ACRE programme tend to have a rather sedentary way of life. And, whenever they move, their mobility is rather driven by classical hard factor, most of the time related to employment. Our results rather confirm those of Storper and Scott (2009: 161): '*most migrants – unless they enjoy a private income or are able to capitalise on some purely*

*personal talent that can be practiced anywhere – are unlikely to be able to significant numbers from one location to another unless relevant employment opportunities are actually or potentially available.’*

### *2.1.2 Some elements for the debate on urban competitiveness*

According to our results, the size of the city, the quantity and quality of transport infrastructures, and above all the studies and job opportunities act as a significant driver behind the decision to settle in a certain region. The respondents are also heavily tied to their native and family environment or to the place where they have studied and built their social networks. On the other hand, soft factors are clearly not influential to directly attract creative and knowledge individuals – employees, entrepreneurs and transnational migrants – in a city. However this does not mean that they have no importance at all for the surveyed, especially to retain them on the long term. Several observations related to the ‘quality of life’ can be drawn from the empirical results and put into relation with current debates on urban competitiveness.

### **Evaluating hard and soft factors**

First attempts of comparison between the 13 cities show a strong heterogeneity of the results, which can be explained by the differences of local conditions. In general, dissatisfactions are clearly expressed on what refers to material aspects of the city such as dwelling, transports, cleanliness of the streets etc. This can be put into relation with the crucial issue of the development pathway of each city, which is one of the dimensions to be taken into account for a typology. Conditions for success seem different in cities with a strong or a discontinued path. We could indeed notice a lower satisfaction with facilities and urban infrastructures in general among people living in ex-socialist cities of Sofia, Riga, Budapest and Poznan. But the situation also differs according to the level of infrastructure and the position of the city as a national or regional capital. The size of the city also has to be thoroughly considered in the way that it might offer more potential personal relations. Along this line, the presence of strong universities well integrated into the city’s life appears to play a major role as pre-condition to the formation of further social networks. Let’s also mention that a positive evaluation on one or several aspects of the city’s environment does not necessary mean that the surveyed are not worried about the evolution of the city. In Munich for instance, the transport system and a large number of urban facilities and services are judged very efficient but the surveyed tend to be pessimistic on the city’s future in general.

Soft factors seem to be much more difficult to evaluate than hard factors. Here it is important to distinguish between different types of soft factors. On the one hand there are conditions which policies cannot do anything, which relates to the natural assets of the city such as its location in a favourable natural environment or the sunny climate it enjoys or not. On the other hand, there are factors like openness and tolerance that can be more or less easily promoted or improved on the long term by the mean of political decision.

### **No specific expectations of the ‘creative class’?**

The fact that the surveyed’s concerns do not differ much than those of the rest of the population is one important statement that we can draw from the empirical results. This contradicts again R. Florida’s on the idea of specific needs of a specific ‘creative class’. For instance, worries about the availability of jobs and affordable housing are pregnant in most of the surveyed cities. Concerns about the efficiency of the urban transport system and the related issues of traffic congestion and air pollution, but also safety issues are important for a large part of the respondents. Moreover the above underlined role of soft factors as *retention* factors tend to confirm that policies should not only focus on the attractiveness of the city for a ‘creative class’ coming from outside but should be oriented towards inhabitants who already live and work in the city.

This leads to consider the complex issue of urban policies and the integration of various, often contradictory objectives such as the need to increase competitiveness, tackle social exclusion and preserve environmental resources.

The risks associated to policies focusing on economic excellence relate to the growth of social and spatial disparities within urban areas. This is one of the critics made to Florida’s theory (Malanga, 2004; Peck, 2005; Scott, 2006). The elitism associated with the concept of ‘creative class’ also tend to live down the debate about social polarisation associated with economic restructuring. For instance, Thanki and Jefferys (2007) describe the informalised labour market of the media industries in London and show how the need for personal contacts to find work and the precariousness of the workforce have reinforced the dominance of the industry by a white middle-class elite.

### **The issue of scale**

The ‘competitiveness-cohesion’ binary, which is at the heart of the current debates about policies, has been scrutinised in a recent book in relation with a European research project running between 2004 and 2007 (COST<sup>2</sup> Action A26). The authors insist on the rescaling process that has gone hand in hand with globalisation – characterised by open markets, removal of barriers for trade, investments and migration of labour. Cities have become ‘key territory for current capitalism’ and ‘place competition has become a key driver of spatial and urban policy’. At the same time, cities and regions are forced to redefine their objectives, their means, their institutions and their positions as socio-political units (Ache et al., 2008: 7).

The new meanings of the local and regional systems have been pointed out in a context of globalisation and it has been concluded that this should not be regarded as separated from global processes (Musterd and al., 2007). The analysis highlights the need to take into account the city, the city-region and the wider regional scale, both in geographic and in political-administrative terms, as well as the need to consider ‘*smaller areas (sometimes neighbourhoods with specific characteristics) which either do or do not fit the requirements*

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<sup>2</sup> COST is an intergovernmental framework for European Co-operation in the field of Scientific and Technical Research.

*of residents and firms and thus demonstrate dynamic economic transformation or fail to do so' (Ibid: 30).*

The new importance of cities and regions in the global economy and the re-scaling process it entails let the neighbourhood appear as a new object of attention. One of our results relates to the idea that if soft factors do not influence people's choice to settle in a particular city, they might determine why they choose a certain district within an urban area (Martin-Brelot et al., 2010). This idea could at last be put into relation with the differences we found between creative and knowledge workers. The first ones seem to be more demanding in terms of cultural offer and social environment and the second ones more sensitive to hard factors. This has probably implications for policy makers who wish to favour a certain type of industries or individuals. Particularly in terms of scale, interventions on neighbourhoods might be more adapted to the needs of creative people, whereas strategies at the metropolitan and / or regional level might better suit a strategy targeting the development of knowledge intensive activities.

On the basis of the outcomes of this analysis and the surveys that have been carried out in the previous Work Packages, as well as on the basis of the synthesis reports which have been written, current policies and strategies are confronted with actual dynamics in the regions involved. Attention is paid in particular to the institutional dimension and the role of organisations (governments, trade associations, large companies, universities, citizen movements etc.) and the mode of governance in a comparative perspective.

## **2.2 Governance approaches and methodology**

The purpose of this sub-section is not to review in details the different governance approaches and methods but to highlight key issues regarding comparative studies and identify a common ground for a comparative analysis of case studies.

The nature and scope of this research phase should be taken into consideration: it primarily involves a policy documents analysis, a study of governance arrangements in the field of economic development as well as interviews of stakeholders. The research mainly relies on existing knowledge and expertise of the topic under consideration and on previous research conducted by the researchers on every case study.

### *2.2.1 The diversity of governance concepts and theoretical approaches*

Over the past decades a number of theories and approaches have been developed within what has been referred to as a shift of paradigm from government to governance. Prominent urban governance approaches include the American 'growth-machine' and 'urban regime' theories (and the related notion of 'urban growth coalitions') (Stone, 1993; Stone, 1989; Elkin, 1987; Stoker, 1995). Those approaches rely on the notion of 'policy networks' which is based on the (contentious) assumption that political processes are not controlled by state actors alone and that governing increasingly depends on the interaction of public and private actors (Davies, 2002). Policy network analysis has been described as '*attempts to explain policy development*

*by examining networks of actors concerned with a given policy problem, across the public and private sectors and throughout different levels of governance'* (Mikkelsen, 2006: 17-18). Whilst all analyses use the network as unit of analysis several approaches have been developed (Ibid.). The term 'policy network' can also be understood as '*as a generic label that embraces different forms of relations between state actors and private actors*' (Kriesi et al., 2006: 341).

### 2.2.2 *Governance in creative and knowledge industries*

Despite their very different production conditions and marketing structures, the cultural and creative industries display characteristic features that are reflected in specific forms of governance. Micro-companies and/or project-based structures with a large portion of freelancers dominate. Some rare sub-areas are heavily dependent on state funds (theatres, even film industry). As a whole, the cultural economy is a high-risk area with extreme fluctuations in market success. Besides, creative industries lack organisational basis and industry associations that could serve as negotiation partners. In these particular conditions, traditional 'top-down' governance approaches seem hardly adequate. Establishing leadership in structurally unstable situations requires a more flexible, less hierarchical approach. Attention should be paid to intermediaries such as 'culturepreneurs' (Lange, 2007) or 'creativity brokers' (Bilton and Leary, 2002) that can mediate between agencies and creative industries.

The knowledge industries are far more institutionalised and rely on growth coalitions that often associate public agencies, big businesses and industry associations. Furthermore, long established policies and structures are critical (Hall, 2004). These sectors are less flexible, characterised by a strong inertia. Emerging spin-off companies and spill over effects are far from exceptional. The importance of educational assets in a given city for the progressive development of knowledge-intensive industries makes them more dependent on the support of public structures; top-down governance approaches are much more frequent (and might be more relevant) in that area than in that of the creative and cultural industries.

### 2.2.3 *The difficulty of conducting comparative studies*

The comparative study of policies and strategies raises a number of theoretical and methodological issues that have been summarised as follow within the context of a study of two German and two U.S. cities<sup>3</sup>: '*an over-dominance of deductive approaches, the lack of explicit methodological guidelines and the less than rigorous application of what has become a multitude of overlapping theoretical concepts*' (Gissendanner, 2003: 3).

Whereas it is acknowledged that deductive studies make a valuable contribution to theory building, it is also pointed out that the use of different concepts for qualitative descriptions inhibits case comparisons. In addition prominent urban governance approaches such as the

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<sup>3</sup> This study aimed at analysing the different ways in which cities responded to de-industrialisation and at exploring why some would respond in a relatively more strategic fashion.

'growth-machine' and 'urban regime' theories in particular are said to provide few explicit methodological guidelines and the authors that applied them do not usually specify the methodology they use, which also makes the comparison difficult<sup>4</sup>. Finally, the concepts used by the researchers may differ from the one originally defined in the source texts (Ibid.).

According to some scholars the dominant urban governance approaches present some shortcomings as well. The urban regime theory has been criticised in a number of aspects: its focus on political management and arrangements of internal governance coalitions and its failure to move beyond 'middle-level abstractions'; its tendency to overlook the role of higher level governments; a rigid and static conceptualisation of the division of labour between state and the market and the subsequent underestimation of the potential role played by the local state and community-based organisations in capital accumulation; as well as a narrow vision of the private sector that does not take into consideration small businesses as increasingly vital actors in the post-industrial era (Imbroscio, 1998; Gissendanner, 2003). Other criticisms of the urban regime theory underline the fact that it does not take into consideration the discursive dimension of partnerships and the power relationships (this is particularly relevant in urban regeneration policies, see Atkinson, 1999). The 'growth machine' approach has been criticized for its emphasis on the business communities and land use decision-making. Scholars also argue that the efficacy of local political structures and formal politics is not adequately considered and that the connections between the local state and the national state are neglected (Fox Gotham, 2000). Both approaches have been criticised for their underestimation of local political conflicts.

The relevance of approaches in term of 'policy networks' in the context of European cities has also been critically explored (see Davies for an analysis of the inadequacy of the term 'governing by networks' to describe the politics of urban regeneration in the UK). The debates revolve around the role and influence of public actors, in particular the national state, in sub-national affairs. The relative prevalence and power of 'autonomous governing networks' in different political systems are also put into question (Davies, 2002).

Following these shortcomings some authors have called for a more inductive approach that requires qualitative methods 'that better uncover structural details of governance networks in ways that are less dependent on particular general concepts or on a logic of data selection that is independent from particular cases. Case study data must also be presented in ways that ease comparison' (Gissendanner, 2003: 6).

We propose to adopt such an inductive approach in order to describe and analyse simple structural aspects of networks through a set of common questions.

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<sup>4</sup> In addition to the fact that these theories are based on the U.S experience and context and do not necessarily fit the European ones.

#### 2.2.4 *Defining a common ground for comparative work*

Again, we have chosen to present a set of common questions to be answered in every case study rather than a single theoretical approach (see Appendix: Elements to address the types of interactions between stakeholders). A broad definition of ‘policy network’ is proposed (see the same appendix). This set of common questions builds on various analyses of networks that have been developed to analyse European policies (Kriesi et al., 2006; Peterson and Bomberg, 1999; Peterson, 2003; Rhodes, 1990, 1997).

The aim of this analysis is to identify and describe networks structures and functioning, including:

- The stakeholders involved in the definition and implementation of economic development policy, including identifying who is the most influential.
- The nature of their interactions.
- How and to what extent the structure and functioning of coalitions and networks ‘*may explain policy choice, democraticness, strategicness, openness to new policy ideas, effectiveness, and so on*’ (Gissendanner, 2003: 15).



## 3 ECONOMIC CONTEXT, ANALYSIS OF STRATEGIES AND POLICIES

### 3.1 Brief introduction of creative knowledge sector based on ACRE findings

#### 3.1.1 Statistical analysis

The Budapest Metropolitan Region (BMR) as the only genuine metropolitan region of Hungary has always had a considerable share in creative knowledge sector at a national scale.

According to the definition of creative economy by the ACRE consortium at the end of 2007 there were 258 thousand active economic organisations in Hungary operating in the field of *creative industries* and *knowledge intensive industries* (together the ‘creative knowledge sector’), which made up 36.7 per cent of the active economic organisations registered in the country. 44.5 per cent of them (ca. 112,100 companies and sole proprietors) acted in the BMR. The number of employees working in the creative sector of Hungary made up 889,000 persons, of which 52.0 per cent (463,000 persons) worked in the BMR (Table 3.1). In 2007 creative knowledge sector in Hungary produced 61.8 billion EUR revenues as a total, the revenues produced in the territory of Budapest reached 37.6 billion EUR. Compared with the data of 1999 several remarkable changes took place during this eight year period not only in Hungary, but also in the Budapest Metropolitan Region (Kovács et al 2007).

The number of companies involved in creative knowledge sector had increased by 30.7 per cent, especially dynamically Finances (85.1 per cent) and R&D, higher education (81.7). At the same time the number of enterprises in creative industries had grown somewhat below the average (19.7 per cent) even though it had brought the largest number of new enterprises (with the new 12,000 ones established since 1999 the number of active firms exceeded 65,000 in 2004, however, it decreased almost 1,500 by 2007).

**Table 3.1 - Number of enterprises in the BMR (1999-2007)**

	1999	2004	2007*	Change 1999/2007 1999=100%
Creative industries	53109	65071	63588	119,7
ICT	6177	8717	8418	136,3
Finances	3858	6223	7142	185,1
Law and business	21305	29396	30554	143,4
R&D, higher education	1306	2181	2373	181,7
Creative knowledge sector	85755	111588	112075	130,7
Total	206109	253498	251605	122,1

Source: CSO Hungary; 1999, 2004, 2007 (\*grey fields indicate negative trends after 2004)

The actors of knowledge economy are highly concentrated in the Budapest Agglomeration compared both to cities of the countryside and in all-national comparison. The knowledge potential has not only national but international importance as well. There is a high concentration of the drawing branches of economy: telecommunication, pharmaceutical factories in advanced technology, IT and media enterprises (Table 3.2). Perhaps these are not among the sectors and corporations with the highest specific net revenues, but they have a decisive role in shaping the structure of the new economy.

**Table 3.2 - Firms of drawing branches in the Budapest Agglomeration, 2004**

(based on top ten lists by branch)

	Telecom- munication	Pharma. industry	Media	IT	Chemical industry	Machine industry	Vehicle manufact.
1.	X	X	X	X	X		
2.	X	X	X	X		X	
3.	XX		X	X		X	X
4.	X	X	X	X	X	X	XX
5.	XX	XX	X			XX	X
6.	X	XX	X	X	X		
7.	X	XX		X			
8.	X	X	X		X	X	X
9.	X	X	X	X	X		
10.	X	X	X	X			

X= firms with headquarters in Budapest; XX= firms with headquarters in the Agglomeration zone

Source: Figyelő, 2005, TOP lists, top 10 firms based on net revenues, 2004.

The increase of the number of employees lagged behind the growth of businesses over the time period in concern. The former had risen from 389,000 to 463,000 which represented a 19.1 per cent increase (Table 3.3). The number of employees in law and business showed a considerable rise both in absolute and relative terms. Between 1999 and 2007 it expanded by 44,400 workers i.e. by 67.3 per cent. With regard to the number of employees the ICT and finances sectors also expanded quite dynamically. Since the turn of the millennium – chiefly due to the reform processes – the employment rate in higher education has shrunk considerably (20.0 per cent drop between 1999 and 2007).

In relation with the revenues the creative knowledge sector succeeded to develop very dynamically: the economic ventures received 14.9 billion EUR in 1999 and it had risen to 37.6 billion EUR by 2007. ICT and Finances produced more than 300 per cent growth over the time period in concern (Table 3.4).

**Table 3.3 - Number of employees in the BMR (1999-2004)**

	1999	2004	2007*	Change 1999/2007 1999=100%
Creative industries	179232	194009	193275	107,8
ICT	48651	56767	61243	125,9
Finances	56319	53930	67723	120,2
Law and business	65286	89702	109248	167,3
R&D, higher education	39266	32649	31407	80,0
Creative knowledge sector	388754	427057	462896	119,1
Total	1347878	1482829	1481959	109,9

Source: CSO Hungary; 1999, 2004, 2007 (\*grey fields indicate negative trends after 2004)

**Table 3.4 - Revenues in the BMR (1000 EUR, 1999-2004)**

	1999	2004	2007	Change 1999/2007 1999=100%
Creative industries	6328507	10887508	13427271	212,2
ICT	3809130	8468869	11914333	312,8
Finances	2359168	5331167	7249749	307,3
Law and business	2252733	3140085	4822682	214,1
R&D, higher education	146510	171428	211508	144,4
<i>Creative knowledge sector</i>	<i>14896048</i>	<i>27999057</i>	<i>37625543</i>	<i>252,6</i>
Total	59459215	113657043	159976824	269,1

Source: CSO Hungary; 1999, 2004, 2007

Trends within the territory of the BMR can be traced with studies on its weight shared and part played within the creative knowledge sector, on the national level. As far as both the total number of active economic organisations and those operating in the BMR are concerned, the weight of the region had somewhat grown between 1999 and 2007. The same is valid for the number of employees and the revenues. The comparison between creative and knowledge-intensive industries, however, reveals considerable disparities. Creative industries enjoyed positive trends in the number of enterprises and employees and in the volume of revenues. This is the only branch within creative knowledge sector, where the share of the BMR on national level had grown with regard to all the three parameters. In spite of an upward trend of enterprises in ICT, the BMR had lost from its weight after the turn of the millennium. Judging from their revenues, capital-intensive, innovative and dynamically developing economic organisations are concentrated in the capital and surrounding settlements. After a small decline in the weight of BMR in finances upward tendencies characterised the development of the sub-sector between 2004 and 2007. Especially high share of BMR could be detected in the field of revenues. In Law and business, between 1999 and 2004 its revenues dropped considerably in comparison with those in the countryside. A conclusion might be drawn that the sophisticated legal and business services had been upgraded and come to the fore in provincial cities after the turn of the new millennium.

There should also be mentioned that – along with an overall growth of organisations in R&D and higher education – the weight of the BMR in this branch lessened in a national comparison. There has been a change of the structure and concept in higher education with a rising number of institutions in research and training in the countryside. The efficiency and rentability of the branch have recently decreased as they produced declining revenues with a concurrent increasing number of staff (Table 3.5 and 3.6).

**Table 3.5 - The importance of BMR in the creative knowledge sector of Hungary (%)**  
(Ratio of BMR within the whole creative knowledge sector of Hungary)

	Enterprises			Employees			Revenues		
	1999	2004	2007	1999	2004	2007	1999	2004	2007
Creative industries	42.0	43.3	44.0	40.5	44.8	46.8	58.3	62.3	63.9
ICT	55.8	53.6	52.6	49.8	46.7	51.8	42.4	43.1	46.0
Finances	28.2	27.4	28.5	75.5	66.5	69.1	89.7	91.2	90.1
Law and business	42.3	41.9	45.2	52.7	53.0	55.7	80.4	66.6	73.6
R&D - higher education	65.6	52.4	51.4	48.1	48.7	49.5	77.5	77.5	73.0
<b>Creative knowledge sector</b>	<b>42.1</b>	<b>42.3</b>	<b>43.5</b>	<b>47.4</b>	<b>49.0</b>	<b>52.1</b>	<b>58.5</b>	<b>58.4</b>	<b>60.9</b>
Total	34.5	35.0	35.8	37.8	39.1	40.7	51.3	53.2	55.0

Source: CSO Hungary; 1999, 2004, 2007

**Table 3.6 - Changes of weight of the BMR in the creative knowledge sector of Hungary (%)**

	Enterprises		Employees		Revenues	
	1999/2004	2004/2007	1999/2004	2004/2007	1999/2004	2004/2007
Creative industries	1.3	0.7	4.3	2.0	4.1	1.6
ICT	-2.2	1.0	-3.2	5.1	0.7	2.9
Finances	-0.8	1.1	-9.0	2.6	1.5	-1.1
Law and business	-0.4	3.3	0.3	4.7	-13.7	7.0
R&D - higher education	-13.2	-1.0	0.7	0.8	0.0	-4.5
<b>Creative knowledge sector</b>	<b>0.2</b>	<b>1.2</b>	<b>1.6</b>	<b>3.1</b>	<b>0.0</b>	<b>2.5</b>
Total	0.5	0.8	1.3	1.6	1.9	1.8

Source: CSO Hungary; 1999, 2004, 2007 (\*grey fields indicate negative trends in the certain periods)

### 3.1.2 Outcomes of empirical surveys

#### ***Budapest in the eyes of creative professionals***

After our results became evaluated it had been clearly established that in the course of the analyses of the hard, soft and personal factors distinction has to be made between the macro (global), and micro (local) levels. Macro level is meant to be the general motivations of the interviewee to come and stay in Budapest and/or BMR whereas micro level encompass factors having been decisive for the choice of the place of residence and site selection within the metropolitan region.

#### Motivations to come to Budapest

Our investigations have shown that the resettlement of creatives as international migrants from abroad to Hungary and Budapest had been primarily determined by hard factors: the main trigger was the intention either to *undertake work* or to *pursue studies* in higher education. In this respect no particular difference could be identified between the members of the creative and knowledge intensive groups.

Similar to the international migrants, Hungarian employees predominantly came to Budapest in order to undertake jobs. As a motivation factor of a nearly similar importance, another goal was to pursue studies in higher education (in colleges or universities). When founding a firm market conditions was the foremost consideration: Budapest represents an enormous economic potential relative to that of the whole country and this exerts a great attraction upon the economic units. Creative firms settled in the BMR are primarily due to the *size of the market and labour market*. A high number of entrepreneurship and a well trained manpower is not a negligible factor of site selection either. The moving in of the creative firms and settling down of the managers are mainly determined by hard factors as well. Another motivation factor already belongs to the soft ones: according to the unanimous opinion of the managers, *informal links* play a decisive part in Hungarian economy therefore enterprises might profit a lot from their presence in the capital. Moreover here they have an access to high level legal, financial, commercial, logistic *services*.

Summing up our achievements of the analyses performed on the macro level it can be stated that workers and graduates employed in creative economy, managers and enterprises, and transnational migrants arriving in Hungary and Budapest are attracted by the economic advantages offered by the BMR: employees favour *job opportunities* of broad range and undertake different kinds of labour as employers do for the same reason, notably by the *favourable labour market conditions*. For the latter the large market (enterprises, clients) is part of the strongest attractions. The second greatest attraction is the use of *education and training*, being important because settling down is a general trend, so higher education of prominent quality raises the economic potential of the BMR. The third is the personal and soft factors changing by target groups when transnational migrants take decisions on an emotional basis (they followed their partner, or the metropolis appealed to them), while the managers tend to consider economic factors (e.g. informal links, availability of services). It can be stated that motivation and attraction factors on the macro level for the creative and knowledge intensive professionals do not differ from those for the people employed in the other sectors of the economy.

#### Why to stay and settle down in Budapest?

Based on the micro level analyses no differences could be recognised as to the factors decisive for the settling down of professionals working in creative vs. knowledge intensive sectors. The most important motivation factors are the *cost of dwelling*, the *size of the residence* and *proximity to public transport* as hard factors (Table 3.7). They are not only attracting but also retaining factors i.e. they are determinant for moving of the creatives to a certain neighbourhood but also for their staying there longer.

Following the above decisive hard factors several soft factors are to be considered before decision is made. Of them the *quality and atmosphere of the neighbourhood* is to be mentioned in the first place. In the scale of values this was mentioned by the employees as a factor examined just after dwelling and public transport. Proximity to the place of work was referred to as an attracting factor by the creatives, whereas high traffic and noise pollution evaluated as a push factor. For a longer perspective *personal safety and public security*, access to commercial facilities and the quality of life offered by the neighbourhood that are primary retaining factors.

From the analyses of cross-tables on the choice of residence the conclusion can be drawn that young people tend to make their choice along the hard factors (in pursuit of studies in Budapest, seeking for job), whereas soft factors (e.g. proximity to natural environment) appear as preference for the middle-age and older generations.

**Table 3.7 - Role of factors in choosing the current dwelling place (whole sample, n=203)**

	Very important	Quite important	Somewhat important	Not important	Don't know	Missing
cost of dwelling	33.5	40.5	11.0	6.0	3.5	5.5
quality of surrounding neighbourhood	33.5	38.0	16.0	4.0	2.5	6.0
the neighbourhood's atmosphere	28.0	39.5	19.5	5.5	3.0	4.5
size of dwelling	23.5	48.0	13.5	6.5	3.5	5.0
proximity to public transport	19.5	44.5	20.5	9.0	2.0	4.5

The employers and managers primarily consider hard factors in the course of site selection. The leading aspects are the *price of office*, the *size and infrastructure of office*, further the *accessibility i.e. connection both to traffic lines and public transport*. For certain creative firms the presence in Budapest is important because it is a prerequisite to applying for subsidies and allowances. An accentuated importance has the *place of residence* of the managerial strata (in inverse ratio to the size of the firm) which also emerges in the process of choosing the headquarter's site. Soft factors come to the fore in the second round, especially the office's neighbourhood: the managers of creative firms favour prestige aspects, whereas those of knowledge intensive enterprises prefer the quiet and calm surroundings. Among the soft factors *informal links* and *good services* are equally attracting factors (macro level) and retaining factors (micro level) for the creative firms. Doubtfully, personal trajectories have some part to play in the decision making process concerning settlement: *family and friends* can play both of these roles.

### ***Strengths and weaknesses of the Budapest Metropolitan Region***

Summarising the results on the *strengths of Budapest* three groups of location factors were judged equally and very positively in each of the three target groups: a) Job offers and career opportunities; b) Cultural life and leisure, sport and entertainment opportunities; c) Services, retailing and shopping networks and gastronomy. The first group belongs to the hard factors, whereas the second and third categories can be evaluated as soft factors.

Apart from the above mentioned groups of factors exist that have less importance but strengthen the position of Budapest. The capital is an undisputed leader in the country's higher education, and the level of training is highly appreciated among specialists from Hungary and abroad.

Job and career opportunities are strong attractions of the BMR. They are supported with favourable working conditions: by the Hungarian and foreign employees the enterprises and institutions as a rule provide more sophisticated working facilities than their counterparts in the countryside.

The issue of subsidies and allowances belong to the hard factors. It is well known that there exists an extensive social network in Hungary, i.e. a system of state subsidies and social allowances, involving high expenditures thus imposing a heavy burden upon the economic

performance of the country, which extend beyond its capability. It is not accidental that the respondents (chiefly transnational migrants and managerial strata) based on financial considerations of their own, highly appreciated this system of subsidies and allowances (Egedy–Kovács 2009).

Residential environment is to be mentioned among the soft factors; it means that most diverse quarters of high standards and quality are evaluated as the strong points of Budapest. This great variety of the neighbourhoods is ready to meet the demands of all social strata. Of the soft factors there are two advantages of the BMR: a fine geographical setting which is praised especially by the transnational migrants and managers and the cultural milieu typical of the city. The latter is closely related with a rich choice of cultural programmes.

There are few hard and soft factors that should be mentioned among the *weaknesses of Budapest*. The former is the Hungarian system of taxation judged very negatively both by the employers and transnational migrants. Although there were attempts to reform the system in the recent years, these have proven to be unsuccessful or inefficient. Therefore Budapest is in a loser position in the economic competition because tax bands and high tax payments appear as push factors: they curb the inflow and settlement of professionals and firms. There are four further factors that weaken Budapest's position in the domestic and international competition of cities even though to a lesser extent than those two mentioned above. Of the hard factors high living costs should be referred to. All the three target groups expressed their view that price of living and especially everyday expenses are very high in comparison with the level of income. Other weak points of Budapest are the lack of tolerance and acceptance of diversity and the missing openness. A surprisingly high level of intolerance (contrary to all expectations) in most places of the BMR was one of the findings of previous surveys. In relation with this issue employees hold that solidarity, social cohesion and equity are problematic, not only in the BMR but all over Hungary. A closely related question is that in the opinion of the respondents there is a very low level of the political culture in Hungary, and the situation is further corroborated by an overwhelming over-administration and bureaucracy.

Among the negative soft factors the indicators typical of big cities: pollution, cleanness and noise are often referred to. High traffic and the noise generated add to the deterioration of quality of life. The uncleanness and neglected state of the districts, quarters and streets complained about by the respondents can be attributed to an inferior level of environmental consciousness among the local population. It is not surprising in this sense that almost half of the respondents from both investigated sectors voiced their stance about the deteriorating quality of life in Budapest over the past years.

## 3.2 Introduction of existing strategies and policies

### 3.2.1 Development of urban policy making process in Hungary

The post-socialist period can be divided into three stages by distinguishing basic political, legal and public policies (Tosics, 2006):

- a) The *vacuum period* the basic political decisions and the introduction of detailed legal regulations, in the early 1990s. The period could be characterised by uncontrolled development triggered by massive privatisation, by investors' focus on the getting the best position in the urban restructuring process.
- b) The *adaptation period* from the introduction of new legislations till the emergence of public policies, in the mid- and late 1990s. This period was characterised by the initiation of new investments and planning instruments, the fragmentation of local governments used to the developers' advantage and reliance on the infrastructure reserves. During this period the municipality of Budapest started to elaborate long-term plans and the Master Plan.
- c) The *adjustment period* marked by the emergence of national and local policies, from the late 1990s on. This period can be characterised by continued investment more regard to public sector plans and emerging cooperation within the public sector. The end of this period is marked by fully functional and unconstrained market processes. In Budapest the long-term Budapest Strategic Development Concept was approved in 2003 and also the medium-term integrated development programme was elaborated in 2005.

According to the policy development periods mentioned above national territorial development policies have been changed regularly during the last two decades. Since the change of regime at least 4 governmental policies could be distinguished (Szemző-Tosics, 2005):

- i) *Development policy for smaller settlements* (1990-1994) – The first freely elected, conservative, rightwing government carried out a policy favouring the smaller settlements. In this period, the number of local government authorities doubled, many of the small settlements which had previously been forced to operate joint councils with other settlements became independent and could establish their own local authority. The main subsidy programmes of the national government helped the smaller settlements build their public buildings and schools and develop their infrastructure.
- ii) *Starting re-centralisation* (1994-1998) – The second, leftwing, socialist-liberal coalition government gave self-government status to the 19 county government authorities and introduced the direct election of their members. This, however, did not lead to the strengthening of the middle level of governance, since their roles and financing remained insignificant. The subsidisation of the smallest settlements did not continue in the same way: the policy became more balanced. In this period, the tendency of the re-centralisation of financial resources started, as each year a lower proportion of the Personal Income Tax (PIT) revenues were left at the place of origination (this share decreased from 100 per cent to 50 and then to 35 per cent), and the government reallocated the centralised part according to its own priorities.
- iii) *Continuing re-centralisation*, strong countryside development policy (1998-2002) – The third, rightwing government continued the policy of re-centralisation; the share of PIT left

with local government decreased first to 15 per cent and then dropped as low as five per cent. With regard to the approaching EU membership, seven planning-statistical regions were set up, without, however, giving any real function to this level. This time, the development of the countryside was put at the centre of the government's policy, so that Budapest suffered serious budgetary cuts. Although this plan to foster the countryside was not coherent or well enough developed, the positive consequence of this period was that it allowed some middle-sized towns - like Debrecen - to become stronger and gain momentum both in an administrative and an economic sense.

- iv) *Emerging decentralisation* by developing larger cities within the country (2002–present day) – Main influencing factors in this period were the preparatory arrangements and accession of Hungary to the EU. As a new member state Hungary intended to increase the role of regions and counties and on the other hand policy makers recognised the importance of economic development in major cities of Hungary. Budapest achieved a better position with the inauguration of the new government this time leftwing. Another important change was that the level of PIT remaining with the local governments was raised from 5 to 10 per cent. However, this amount is still not enough for financing all the expenses local governments have. As a result many of them, having come close to bankruptcy, have remained tied to the central governmental subsidies. It can be said that, in general, the national territorial development policy fails to take the problems of the cities into proper account. Instead of paying attention to special urban needs and problems, the emphasis is placed on larger territorial units, such as counties and regions. This is reflected by the distribution of the national regional development funds, which allocate special funds for underdeveloped micro-regions and regions without having any distinct focus on cities.

Although there is no national urban policy, there is of course urban planning: every settlement from a village to a city has its own established spatial regulatory plan, and cities increasingly have their own complex, strategic development plans. Parallel to the strengthening of local government authorities, the middle level has been substantially weakened: the counties became self-governing, but without real power or financial means, and the regions were only established as planning-statistical units. Moreover, medium and long-term planning has almost totally disappeared at all levels of government. In the emerging and highly fragmented government system, policies have become too centralised, since there was no middle level to which decentralisation could be directed from above. To sum up: planning is mostly delegated to the lowest level, namely to that of the local authorities. In the last two decades having all the planning and decision-making competencies but no financial stability and no regional control, local governments opted for short-term thinking instead of developing longer-term strategies.

Having created a quite decentralised situation with the Local Government Act in 1990, the various central governments delegated all planning competencies to the local level – although with little money attached. Local governments face not only the problem of having a very constrained financial basis compared with their broad compulsory tasks, but also that of the unpredictable changes in the taxation and other financing systems.

With regard to the matter of finance, the main sources of income of the local government authorities are as follows: state subsidies (both normative and exceptional); own revenues (from local taxes, sales, and operation incomes); delegated revenues (from the state); revenues from credit operations, accumulation and capital-type revenues. Local government authorities

usually apply to the central state for financial support for any development. This means that, in practice, the local authorities adapt their development designs to fit the central tenders in the hope of acquiring more money. Another problem is that these central tenders mostly support institutional developments that are primarily not designed to further enhance local developments, and since they have to be maintained thereafter, they take even more money away from the original purposes.

The *over-centralised administrative system* has left too few financial resources at the local government level, so that as a consequence a need has arisen for almost permanent crisis management at the local level. As a consequence of all the above, the local government authorities, with their huge decision-making freedom but very limited financial means, have been obliged to exploit market opportunities and to pay attention to those stakeholders who are capable of contributing financially to local development. This bias has led to the increasing influence of big investors, private investors gained even more influence on an unprecedented scale on the local level, often determining the way in which a settlement would be developed. But it has led at the same time also to the dominance of homeowner oriented policies in urban and housing development.

### 3.2.2 *Most important policies on national, regional and local levels*

In the policy making process in Hungary the most powerful player is the state. Lower administrative levels (county and local levels) have had the right to work out their specific programmes for specific themes such as the creative economy but they only have had limited resources to implement them. The programming period of 2007-2013 has brought a new situation forth. Regions (NUTS II) by working out their own Operational Programmes – based on the National Development Plan – have the chance to direct financing into the creative industries they judge as of strategic importance, besides regions other than Central Hungary are also eligible to use funds supported by thematic operational programmes.

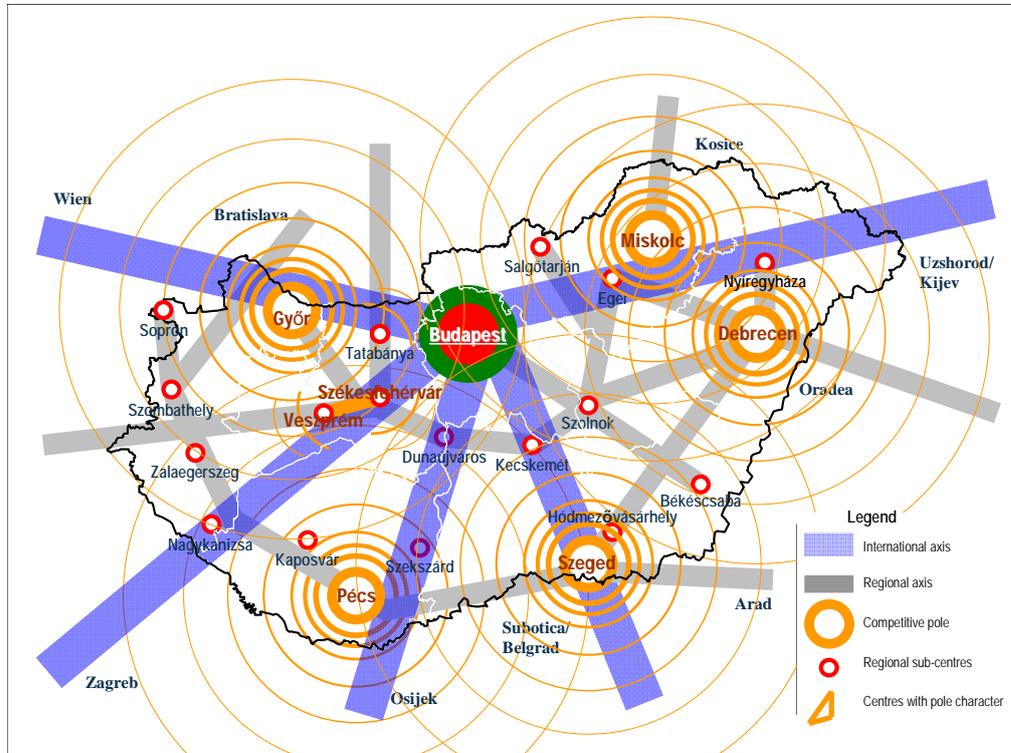
On the national level, the making of national policy for the creative industries was never properly defined. In 2004 Acts on the research and technological innovation fund, on research and development and on technological innovation were passed and the first administrative institutions called the National Office for Research and Technology charged with the execution of law was established in Hungary for planning and coordinating the development of creative knowledge sector.

The Science and Technology Policy Counselling Body in 2004 assessed the situation of the innovative sector in the country and made strategic proposals to improve it. Its analysis highlighted among others the necessity of increasing R&D expenditure and also the significant importance of harmonising education, science and technological policies. It was emphasised, that SME-s are to be made a distinguished subjects of development for working out and building the proper innovation networks and eliminating the financial and legal obstacles and establishing a clear supporting policy with funds accessible via less complicated bureaucratic processes are inevitable for further developments.

The most important development policy on national level in Hungary is the *New Hungary Development Plan*. The New Hungary Development Plan (2007-2013) contains directions for development of creative knowledge sector (e.g. establishment of the innovative knowledge based economy, development of human resources required for research/development and

innovation). The Plan names those concentrated development poles where these conditions of development are sufficient to avoid high risk of such developments. The development poles are Budapest, Győr, Pécs, Szeged, Debrecen, Miskolc and the Székesfehérvár-Veszprém axis (Figure 3.1).

**Figure 3.1 - Development poles in Hungary**



Source: VÁTI Hungarian Public Nonprofit Limited Liability Company for Regional Development and Town Planning

Among the thematic priorities creative economy appears with great emphasis in the Development Plan. It is presented in the first priority (Economic Development – Establishment of the innovative knowledge based economy) and it comes back also in the third priority (Social Renewal – Development of human resources required for research/development and innovation).

On national level directions and milestones of cultural policy are integrated in the Development Plan and the relevant Operational Programmes. These demands for development are summarised in the new Hungarian Cultural Strategy. The new Hungarian Cultural Strategy treats the cultural-development-based regional development, the stimulation of the traditional and new forms of community participation establishing of the preconditions of co-operation; the protection, maintenance and management of cultural heritage; the promotion of representatives of contemporary culture and the integration of its products into everyday practice; and the improvement of accessibility of cultural supply creating a more open national culture.

On the regional level the document that set the vision of creative industries – most of all innovation – was *The Regional Innovation Strategy of the Central Hungary Region (2004)*, which was prepared with the support of the EU 5th Research and Development Programme. The priorities and the measures set by the strategy to achieve the vision were: Developing the

working conditions of the SME-s in the region; Product and technology development; Spreading of innovation culture.

Currently the most important development strategy on regional level is the *Central Hungary Operational Programme*. On regional level, the Central Hungary Operational Programme aims to increase the international competitiveness and to strengthen the knowledge-based economy of the region. In this sense, the most significant task is the stimulation of co-operation between the players of knowledge based economy. The operational programme names five priorities around which the actual measures and tasks are centred: 1. Innovative and Enterprise-oriented development of the knowledge based economy; 2. Improvement of the Preconditions of Competitiveness; 3. Development of the Region's attractiveness; 4. Development of the System of Human Service Institutions; 5. Renewal of Settlement Areas.

Within the Operational Programme the role of Budapest is highlighted as that of a Development Pole. The *Budapest Development Pole Programme* (see chapter 3.2.4) encourages creative cooperation between local enterprises and professional organisations research and development bases and educational and training institutes in a model that increases the national and international competitiveness of the economy.

At the local level, the *Medium-term Urban Development Programme for Budapest (Podmaniczky Programme)* contains the capital's urban planning developments for the coming decade and outlines projects within the full spectrum of sustainable urban development that contribute to the development of creative and innovative industries in the metropolitan area of Budapest. The Podmaniczky Programme gives clear orientation and priorities for the city's development, it defines the goals of development planning, as well as goals for local authority sector-based planning. Over the course of nine years, the programme outlines 130 development plans worth 600–2100 billion HUF (2,2-7,8 billion EUR) of which will come from the Municipality of Budapest.

One of the most important aims of the Core Programme of the above mentioned development concept is to *renew, decentralise and democratise the cultural life in Budapest*. In this context Budapest has to utilise – through its geopolitical position – its existing advantages. In advance, another important object in the development of the city is to *strengthen the innovation and to establish a 'technopolis' area* in the Northern and Southern part of Budapest. Within the framework of the EU's Lisbon Agenda, one of the most important aims in the Metropolitan region of Budapest is the development of a *knowledge-based economy* which can bring the highest added value to the long-term development of the capital. An important task is to *develop the IT environment* of public administration, education and the library network.

### 3.2.3 *The new Pole Programme of Hungary*

In 2005 the Hungarian Government took a decision about the preparation for the establishment of 7 development poles including 8 cities. In the same year negotiations on the collaboration started with the city municipalities (including Budapest) to shape the programme (see Figure 3.1). Thus, the Budapest Innopolis Development Pole Programme (BIDP) is one of the integrated programmes of the new Hungarian Pole Programme worked out in these cities.

The Pole Programme is a flagship programme adopted by the Hungarian Government and aimed at increasing the international competitiveness of Hungary through the support of clusters with considerable innovation and export potential, and stimulating investments in pole cities in order to promote business environment. A comprehensive purpose of Pole Programme is the promotion of internationally competitive clusters, to bring about specialisation to end up with innovative activities yielding high value added, to create close cooperation between corporations, universities and local governments and to reinforce the part played by the regions through the development of pole cities. Thus Pole Programme has a double purpose:

- a) On the one hand *to enhance economic innovation* (to increase the share of sectors of advanced technologies such as biotechnology, pharmaceuticals, ICT, and some branches of environmental industry, development in the “knowledge triangle” of drawing industries of the economy, R&D and universities),
- b) On the other hand *to promote regional and urban development* to create an adequate and well equipped environment for the advancement into an Intelligent City, development of knowledge-based economy and its integration.

Pole Programme is built upon two pillars:

- a) *Entrepreneurial development pillar* of vertical character in support of clusters i.e. cooperation between corporations with considerable development potentials focusing on export-oriented, innovative activities yielding in high value added based on Hungarian SMEs (e.g. deployment of business services, human resources development, purchase of machines and equipment for joint development and production, physical infrastructure development).
- b) *Economic development pillar* of horizontal character aimed at the organisation of favourable business environment supporting primarily local governments, universities and other educational institutions through the development of infrastructure and human resources (e.g. development of research infrastructure, support of projects of R&D&I type, human resources development).

The programme is expected to result in 5-13 successful pole innovation clusters in Hungary by 2013, those to be present on the European market at the same time providing support to SMEs and improving the employment situation. According to the future perspectives formulated in the Pole Programme Budapest and the Budapest agglomeration will fulfil their domestic tasks: it is going to be a gateway city to receive innovations from abroad and a bridgehead to forward them towards the Hungarian urban centres. The Budapest agglomeration is to become a significant centre of the knowledge economy within the EU thus fostering its position within the European city network (see Budapest Development Pole Strategic Concept, 2006).

## ***Institutional and organisational structure of Pole Programme***

### Initiators and key actors of the programme

Pole Programmes were basically initiated by the universities operating in Budapest and in the Budapest Agglomeration. Accordingly, universities and knowledge centres incorporated during the past years play the key role in the running of each pole. So the presence of the universities in the projects is decisive, however the corporative sphere is also represented in the bodies of management of the individual projects through University Regional Knowledge Centres and Cooperative Research Centres.

The most important part in the process is played by the actors of the triangle of knowledge economy: representatives of higher education, R&D and corporations of the drawing branches of economy. R&D capacities are as a rule provided by universities and the research base of the Hungarian Academy of Sciences. The corporative sphere is dominated by domestic and foreign enterprises in informatics. A problem emerging however that is large enterprises and SMEs are equally underrepresented in the projects, but this state of affairs is to be regarded natural in the present phase of the development pole.

In the course of the elaboration of Pole Programme a strategic operative body was formed and feasibility studies were written. The primary task of the operative body was to find the major directions of development via these feasibility studies. Altogether 11 studies were used for the preparation of a central study on the basis of which the strategy i.e. the three main thematic trends i.e. poles became specified. In the operative body research institutes, institutions of urban development and corporate development were overrepresented whereas corporations were rather underrepresented (it would have been desirable if SMEs could share a larger part in this phase of the process).

### Organisational background of Pole Programme

#### *Council of Strategic Management*

The key operative body of the programme is the Council of Strategic Management which is led by the minister responsible for development policy. It takes strategic decisions and performs coordination on the ministerial levels and with National Development Agency. SIB is thus a decision making and coordinative organisation with the participation of actors interested in the implementation of the programme (Figure 3.2).

#### *Pole Programme Office*

The main task of Pole Programme Bureau is the operative programme management, the conduct of coordination of the multi-actor flagship programme and provision of assistance for the colleagues engaged in network development. On the one hand PPI forwards the opinion, experience and recommendations of (potential) beneficiaries of the programme towards the governance, on the other hand it informs them about the expectations of the system of support

### *Network Development Office*

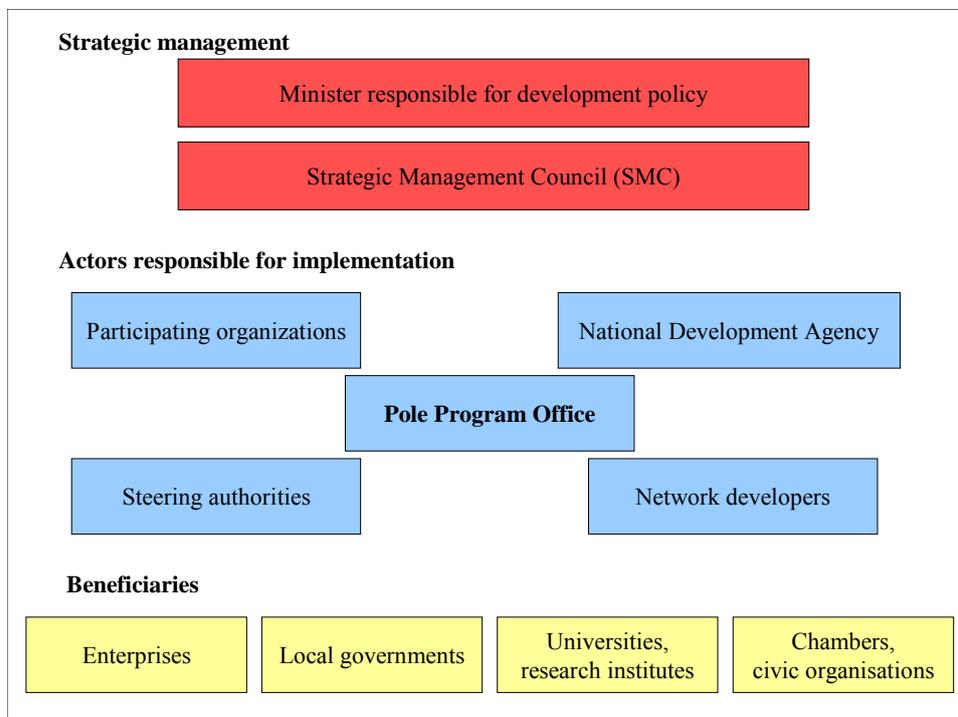
National Development Agency decided in favour of the engagement of active network developers and established a network to provide assistance for the implementation of Pole Programme (Network Development Bureau) which started activities with one network developer in each of development poles. The task of the Bureau and developer colleague is the establishment of local ties for the sake of the implementation of Pole Programme. The bureaus promote the networking of corporations within the Region, present the direct and indirect benefits stemming from cooperation, and provide assistance for the submission of applications in tenders.

### *Local pole offices*

Methodological, methodical and administrative support for the pillar of horizontal economic development is undertaken by „pole offices” operating in pole cities. These bureaus were formed by the local actors in order to effectively coordinate the programme in local dimensions. The primary task is harmonising the ideas of horizontal economic development with the expectations of the private sector.

Pole offices are local institutions, they are familiar with the local economic relations, they are in possession of the links indispensable for harmonising various interests. Their most important service is tuition of methodology necessary for the presentation of expectations of the private sphere and for preparation of applications in tenders.

**Figure 3.2 - Pole Programme Implementation System**



Source: *Pole Cluster Handbook, 2009*

## *Clusters in the Pole Programme*

### Types of existing clusters

A cluster building process in relation to Pole Programme started with the elaboration of the strategy in 2005 (programme for the poles with three thematic strategies). The programme became adopted in 2006 and Pole Programme of Central Hungary Region was presented before central governance and Municipality of Budapest in early 2007. In accordance with a concept adopted by Pole Programme development of clusters might be implemented in four subsequent phases built upon each other:

1. Initial clusters. The primary task is the creation of confidence, stimulation of economic actors to cooperate. The starting point for the support of such clusters is securing opportunities for each and every initiative. Tenders available are conducted for the strengthening of cluster management.
2. Developing clusters. The primary task is widening and deepening of collaboration reached at the start of the cluster. This stage is already aimed at implementation of joint investments. Options for support are determined in a way that the projects thus launched increase the individual competitiveness of cluster members at the same time raising the joint competitiveness of clusters thus canalising them towards accreditation.
3. Accredited clusters of innovation. For the accredited clusters emphasis is put on implementation of joint innovation projects.
4. Pole innovation clusters.

The first and second steps (starting and developing clusters are supported from Regional Operative Programmes/ ROPs) prepare the clusters to implement joint projects of development that they would be entitled to apply for supports of billion HUF dimensions in the third and fourth steps. The support of cluster management activities creates an opportunity that the majority of members in the cluster are acquainted with the advantages of the collaboration without the first step being overburdened by the expenses of the cluster manager. With the clusters having become ripened the focus of supports is to be shifted to the financing of common projects/developments and in this phase a common expectation is that the costs of cluster management serving the interests of the efficient cluster members are born by the cluster (Pole Cluster Handbook, 2009).

### *Accredited clusters in Hungary*

Networking in Hungary is typical in informatics, environmental industry, motor and machinery manufacturing and in the energy sector. There should be mentioned that food industry, creative industry, construction, logistics, health industry, biotechnology and tourism are sectors mostly affected by cluster development (Table 3.8). For the time being there are 17 clusters with accreditation certificate operating in Hungary. Seven of them might be associated with the realm of medical sciences, pharmaceutical industry, biotechnology and medical instrument manufacturing. The second domain is infocommunication technologies with four clusters. From the geographical aspect six accredited clusters can be linked to South

Great Plain, five of them evolved in Central Hungary, and it should be noted that no accredited cluster can be found in West Transdanubia.

Within the clusters three quarters of the members as a rule can be labelled as SMEs, and more than half of these are micro-corporations. Big enterprises make up a mere 5% of the whole membership whereas other organisations comprise 20%. Of the sectors affected by networking it is the clusters in woodworking and furniture manufacturing that have the highest ratio of SMEs. Big enterprises mostly dominate the clusters in motor industry and machinery manufacturing. Members of clusters see the biggest advantages provided by cluster development in information gathering, implementation of joint investments, opportunities of market building, establishing contacts and in an increased efficiency of participation in tenders.

**Table 3.8 - Accredited clusters in Hungary in 2009**

Branch	Number of accredited clusters
Health industries	7
Informatics	4
Environmental industries	3
Packing technique	2
Construction, energy	1
Total	17

*Source: Pole Cluster Handbook, 2009*

Regionality is an issue of key importance for networking. A typical feature of the Hungarian clusters is that most of them operate in a single region; ca one fourth of them is located within a smaller territorial unit and also one fourth is found in an area extending onto several regions. Transboundary clusters are not numerous, most of them are related to Romania and Austria. Sectoral leaders are informatics and environmental industry, geographically it is the clusters in North Hungary and South Great Plain that also operate beyond the state borders. One-region clusters are general in informatics, motor industry and machine manufacturing and in environmental industry. A tighter areal cooperation is the most typical of food industry whereas clusters operating in several regions are found in the energetical and informatical sectors.

### ***Financing of Pole Programme***

Between 2007 and 2013 the sum total available as concentrated source of support in Pole Programme 354-423 billion HUF ( $\approx$ 1.3-1.6 billion EUR). Calculated with effects of capital transposition this sum induced as a result of Pole Programme might amount to 507-716 billion HUF ( $\approx$ 1.9-2.6 billion EUR). In the case of its adequate implementation this is the economically most efficient programme between 2007 and 2013.

Clusters in their beginning phase i.e. in the first and second step are supported overwhelmingly from Regional Development Programmes whereas accredited and pole innovation clusters showing advanced cooperation are supported from Operative Programme of Economic Development.

### Financing clusters via tenders

In the four-step model there is non-reimbursable support available for the starting, developing and accredited clusters during 2008–2009. In the competition conducted in the frame of Regional Operative Programmes in 2008, 181 applications for support were submitted; of them 100 were accepted: 79 in the starting category and 21 in the developing one. The sum total of support accounted for 3.35 billion HUF (≈12.4 million EUR). Most of the claimant clusters operated in Central Hungary, South Great Plain and Northern Hungary, most of the winners could be found in Central Hungary. In sectoral subdivision the clusters from energetics, machine and motor industries and infocommunication technology were represented by 12 winners each whereas 11 winners operated in environmental industry. In the two tenders inviting accredited clusters and their member corporations a sum total of 3.6 billion HUF (≈13,3 million EUR) support was awarded by the Management Authority. In the framework of tender entitled “Support to corporative innovation in accredited clusters” 10 clusters were supported with a sum total of 1.6 billion HUF (≈5.9 million EUR). Of these ten projects five were associated with health industry and four of them related to informatics. Within the tender scheme “Support to accredited innovation clusters” 5 projects have been awarded so far with a sum total of 1.9 billion HUF (≈7 million EUR) (together with the mirror scheme Central Hungary Operative Programme). All of the five winner projects were associated with infocommunication.

### Investments relating to the horizontal pillar of Pole Programme

Pole cities were awarded 119 billion HUF (≈440 million EUR) via tenders invited by Pole Programme. These sources are partly attached to urban development goals in order to create favourable or improving business climate indirectly, via amelioration of urban infrastructure and increasing the attractivity of the cities. Another part of sources is aimed to support investments which bring improvement in the innovation milieu of the pole cities directly. University and science park investments belong to this circle of investments (the most important ones are introduced in the enclosure).

Based on different schemes several projects of infrastructural and content development as part of horizontal economic development of the programme were supported in 2008–2009. In the frame of tender scheme Operative Programme of Economic Development „Support of innovation and technological parks” 6 projects were supported with a sum total of 12.4 billion HUF (≈46 million EUR) (establishment of: Genomics Innovation Centre at Szeged; Nanopolis Innovation Park at Miskolc; Health Industry Innovation Centre at Pécs; Medical Biotechnological Innovation Centre at Budapest; Pharmapolis Pharmacological Science Park at Debrecen). Within the scheme of Social Infrastructure Operative Programme entitled „Development of infrastructure and informatics to raise the standards of activities in higher education 6 projects might be launched in the countryside supported with a sum total of 34.6 billion HUF (≈128 million EUR) (Miskolc, Pécs, Győr, Veszprém-Keszthely, Debrecen, Szeged). Agora Pole with presentation of the results of regional innovation aimed at creation of multifunctional community spaces conducted in pole cities, 5 projects qualified for the second round (Debrecen, Győr, Miskolc, Szeged, Székesfehérvár).

### Possible role of EU sources in financing

Framework Programmes brought into existence for the support of community-level R&D collaboration offer considerable EU sources. For Pole Programme it is the 7th Framework Programme on Research, Technology Development and Demonstration activities starting with 2007 that is relevant and in contrast to its predecessors is going to last seven years. In these domains it is worth enlarging the opportunities of financing of R&D projects, infrastructure developments by participation in direct EU tenders. Major domains of the Framework Programme are: a) COOPERATION (cooperative international research activities – 32.342 billion EUR); b) IDEAS (support of fundamental research via the involvement of the European Research Council – 7.460 billion EUR); c) PEOPLE (Marie Curie action and other initiatives – 4.728 billion EUR); d) CAPACITIES (support of educational infrastructures, regions of knowledge, SMEs – 4.243 billion EUR).

Furthermore an important part might belong to Competitiveness and Innovation Framework Programme (CIP) aimed primarily at the enhancement of competitiveness of SMEs and providing support to innovations (with a sum total of 4.2 billion EUR).

#### *3.2.4 The Budapest Innopolis Development Pole Programme*

Budapest worked out its pole strategy programme (Budapest Innopolis Development Pole Programme – BIDP) in 2006 and three thematic development trends – so-called vertical programmes – were announced in 2007: MediPole (medical industry), ITT Pole (information society technology industry) and EcoPole (ecological industry).

#### ***Vertical programmes (thematic development trends) of BIDP***

##### Information society technology (ITT) pole

This vertical programme is aimed to accelerate growth and improve employment through strengthening the creative economy. Focal topics are informatics, computer science, telecommunication, infocommunication, vehicle technics, transport automatisisation, transport management and logistics and certain applied social sciences (media sociology, mass communication) (Table 3.9).

ITT Thematic Pole undertakes coordination of the professional activities and reaching „critical mass” in the framework of Mobility and Multimedia Cluster (MMC). MMC was formed in 2007 and it has 62 member corporations for the time being. 75 per cent of the membership is SMEs, the total annual revenue is over 700 billion HUF (2,6 billion EUR), and more than 12 thousand persons are employed. MMC is the largest cluster in Hungary operating in infocommunication and accredited innovation. The most important R&D&I domains are the followings: intelligent home solutions (with an emphasis of devices supporting conduct of living), development of multimedia products (based on mobile, web and IPTV) and of position dependent, positioning, tracing solutions.

**Table 3.9 - Scientific matrix of ITT Pole**

Academic branch	Research fields	Research type	Project target
informatics, infocommunication, vehicle technics, multidisciplinary technological sciences, applied social sciences (media, mass communication	4th generation telecommunication infrastructure, vehicle electronics, vehicle control IT safety, Information technology Content elaboration and handling	Applied research	Creating conditions for collaboration between R&D workshops and corporations

*Source: Budapest Development Pole Strategic Concept, 2006.*

### EcoPole

EcoPole is a new technology-intensive field of innovation aimed at laying scientific foundations of technological systems for environmental industry and the use of renewable resources and their regional development. It is targeted at the integration of research and educational potential of the involved academic branches and the establishment of a centre of technology, science and innovation operating upon the cluster principles. Projects incorporated into Ecopole are purposed at the attainment of results raising the quality of environment in the region (Table 3.10).

The Sewage Technology Innovation Cluster was founded in 2008. With the integration of five large corporations, two universities, a research institute of the Academy, 23 SMEs, Budapest Enterprise Agency, and Innotech Association a system was formed by the cluster in the framework of a comprehensive programme launched in 2009. Its main tasks are the followings: biogas production, reuse of purified waste water, intensification of waste water purification technologies, utilisation of sewage sludge, independent energy supply of small settlements by mini power plants, development of ecologically friendly reused building materials.

**Table 3.10 - Scientific matrix of EcoPole**

Academic branch	Research fields	Research type	Project target
Food science, Nutrition science, Food processing, Environmental science, Agronomics	Food safety; Health protective and healing food; Use of renewable energy sources; Research and analyses in environmental industry; Survey of radioactivity	Fundamental and applied research	Process development Methodology development

*Source: Budapest Development Pole Strategic Concept, 2006.*

## MediPole

MediPole is purposed for the international and domestic integration of knowledge economy at Budapest, stimulation of the emergence of start-up and spin-off firms, implementation of complex research projects, involvement of the private capital, organisation of a biotechnological R&D centre for the personal-tailored medical treatment, reception of foreign students. Biotechnology has been regarded by the governance as a strategic industry since 2001 as Hungary possesses high potential in this field. MediPole puts an emphasis both on stepping out to the foreign market with competitive products and technologies and on raising the standards of health services in Budapest and within its metropolitan region (Table 3.11). Budapest MediPole Cluster was organised in 2008 and it ranks six by its potential among the health industry clusters in Europe. As an umbrella organisation the cluster is purposed to support the complex development of the health industry in the region. For the time being there are two clusters operating within the pole: a) the Hungarian Medical Device Manufacturers Cluster (MediCluster) in which 60 SMEs involved in developing, manufacturing, marketing, and servicing hospital and medical instruments are organised in a network, and b) Medical Biotechnological Innovation Cluster (OBIK), involved in biotechnological and health care developments. Both clusters were entitled „Accredited Innovation Cluster within Pole Programme of New Hungary Development Plan”.

**Table 3.11 - Scientific matrix of MediPole**

<b>Academic branch</b>	<b>Research fields</b>	<b>Research type</b>	<b>Project target</b>
Bioinformatics, biotechnology, Medical science, Medical biology, pharmaceutical research, pharmaceutical industry	Pharmaceuticals development; Individual pharmaceutical therapies depending on the genetic endowments of the patient; info-bionic methods of pharmaceutical safety	Fundamental and applied research and development Overwhelmingly public financing Emerging individual financing	Creation of conditions for the collaboration between R&D workshops and corporations Founding of an international research centre Role of the University as entrepreneur

*Source: Budapest Development Pole Strategic Concept, 2006.*

For the past three years the clusters of BIDP were represented on nearly 120 international exhibitions and business forums with their tradable innovative products and services. Market-oriented activities of the clusters have focused on countries of Far East (China, South Korea, Indonesia, Malaysia, Singapore, Japan) but they also made appearance in the export markets of EU member states, CIS countries (Russia, Ukraine, Uzbekistan, Kazakhstan etc.), Arab countries (United Arab Emirates, Saudi Arabia, Jordan) and in South America (Brazil).

### ***Horizontal programmes of BIDP***

Beside the promotion of cluster organisations, monitoring knowledge and labour market and development of infrastructure for informatics the most important horizontal programmes are the technology transfer by establishing science parks and the development of a so-called Technopolis urban area:

#### Technology transfer: establishing science parks and enhancement of their functions

The programme is targeted at the promotion of networking and growing collaboration between technological parks thus increasing their efficiency. Already existing „park-embryos” should be further developed into real scientific/technological parks and instead of competing parks complementary in their profile cooperation is to be stimulated between them.

Most important innovative parks existing in Budapest are as follow:

- Infopark (the first scientific and technological park in East Central Europe)
- Graphisoft Park (an ICT development centre established as brown field private investment)
- Talentis (a macro-regional innovation and knowledge centre in Zsámbék Basin)
- “Gázgyár” – Gasfactory (a cultural and festival park as a brown field investment; an office park and knowledge centre to be based upon R&D)

#### Technopolis urban development: the Danube Technopolis

Danube Technopolis appears as an integrated space for development of national importance. The programme is purposed for a uniform development of the quarters by the river so that it fulfils its „technopolis” functions (offering special jobs, providing high quality living standards, to be easily accessible, with advanced infrastructure and urban ancillary services). The key institutions are basically located in the southern segment of Budapest i.e. in a wider sense within a strip of some kilometres limited by the Danube and the northern rust belt. Within this dynamically developing zone of Buda, Pest and potentially of Csepel Island may evolve Danube Technopolis which is a common label for the institutions to be holding the functions of knowledge city Budapest. Danube Technopolis is however to be defined relatively unambiguously only with regard to its core area. For the time being this zone rather is a venue of spontaneous processes than as resultant of conscious and coordinated efforts representing the innovation potential of a metropolitan region.

### ***Conformity of BIDP to the general documents on development***

Objectives put by Budapest Innopolis Development Pole Programme (BIDP) along with its vertical and horizontal programme elements are conform to the instructions formulated by all-national documents on knowledge-based economic development. The programme is adapted to principles and targets of short-, medium and long-term development documents. Horizontal elements aimed at collaboration between universities, research institutes and economic

organisations and vertical elements appointing the trends of research cooperation can be paralleled with domains figuring in Central Hungary Region. The strategy of pole development is closely related to development programmes of Central Hungary Region, of Budapest Agglomeration and of Budapest City Development Concept (and those of the medium-term plan of the latter called Podmaniczky Programme)

#### National Lisbon Action Plan for growth and employment

According to National Lisbon Action Plan for the development of knowledge economy it is indispensable:

- a) Promotion of reciprocal mobility among students and researchers;
- b) Support of researchers working abroad to return home
- c) Stimulation of collaboration and networking between universities/research institutes and corporations
- d) Reinforcement of R&D with a high value added (ICT, nanotechnology, biotechnology, space research, environmental industry, health industry, pharmacology)

#### National Concept of Development Policy (OCDP)

OCDP puts an aim of persistent improvement in innovation ability until 2020 with a coordinated development of higher education, research institutes, incubator houses and services, professional and academic organisations, of information centres and knowledge-intensive corporations.

In accordance with OCDP Budapest and its agglomeration are to turn into the creative centre of the region by 2020, and will then be regarded a model by local youth and researchers. Due to innovation output and using market gaps some European firms operating here will be champions in bio- and nano-technologies, environmental and energy industries, informatics and content industry, creative industries and in business services.

#### New Hungary Development Plan (NHDP)

The most important objectives of the Plan are the establishment of knowledge-based economy and society, creation of development poles and their strengthening, enhancement of economic, spiritual and cultural attraction of Hungary via initiatives and undertaking creative roles.

Development axis „Improvement in economic competitiveness” is to give stimuli to market-oriented R&D activities, to similar cooperation between universities, research institutes and corporations, to provide support for institutions of research and innovation, establishment and strengthening of integrated centres (bridging, competence centres, knowledge centres, incubation houses, innovation and technology research centres), to insure innovation services (innovation consultancy, incubation). The axis stimulates international technology cooperation and technology transfer.

NHDP treats Budapest and its agglomeration as a high priority and puts an aim before Central Hungary Region to become a creative region: a leader even in international comparison.

Knowledge, Creativity, Value – A mid-term strategy of R&D and innovation policy (Innovation Strategy Draft)

Innovation Strategy is purposed for the enhancement of the competitiveness of Hungarian economy and indirectly serving for the rise of the quality of life of the population. Among the mid-term objectives there is the strengthening of corporative R&D, creating well-established capacities of R&D and innovation (research universities, improvement in infrastructure, growth in flexibility towards the requirements of the economy, international collaboration), enlarging of knowledge as a basis for competitiveness.

Within the priorities of the Innovation Strategy the following ones can be related to the BIDP strategy:

- Support for knowledge centres of drawing branches, technological platforms, innovation clusters. Domains of key technologies are: infocommunication technologies, life sciences and biotechnology, nanotechnology, technologies of the use of renewable energy sources, environmental technologies. Within knowledge-based industries main domains are: IT and electronics, machinery and motor industries, pharmaceuticals, chemicals, food industry, industry of innovative services.
- Based on regional approach and academic branches universities have been selected those surpassing critical mass, of international standard and collaborate with corporations therefore worth of strengthening. Centres of European importance should be developed with respective infrastructure of international standard. Modern higher education must be shaped which reacts to the requirements of the economy.

Central Hungary Regional Operative Programme

The leading strategic motive of CHR OP is the concept of „creative place” within the region. Accordingly, competitiveness of the region is to be based upon the development of the knowledge basis with the help of innovation, fostering R&D, and upon cultural economy built upon creativity.

Innovation Strategy and Action Plan of Central Hungary Region

Future prospect of the strategy is that Central Hungary Region as an integrator of innovation of Hungarian R&D in Hungary is a significant and perpetually developing region of Hungarian knowledge society and of the EU. Its specific purposes are the raise of the level of innovation culture, stimulation of product and technology development and improvements of conditions for the operation of SMEs.

### Budapest City Development Concept

Future perspectives of the City of Budapest (according to Development Concept) envision central functions in the field of market services, informatics, macro-regional logistic functions, tourism and cultural services. Closely related to these central functions Budapest is to become the most important meeting and exchange point for information, capital, commodities and cultural goods between the countries of West Europe and South Eastern Europe in both directions.

### Mid-term Development Programme of the City of Budapest (Podmaniczky Programme)

The programme points out priority areas of development (e.g. universities and related institutions of knowledge industry on the southern margin of the city centre forming core areas of Budapest Technopolis) and formulates horizontal programmes with purposes directly related to pole development. They are served by the promotion of innovation and knowledge function, by the establishment of links between economic (corporation) and governance (central and local) fields, shaping of the plan of economic development through the clusters. Budapest Core Programme contains financially supported developments. Dynamic economy priority enhancing the reinforcement of knowledge city functions of Budapest and Region proposes development targeted at the adaptation of actors in the sphere of economy to each other, providing assistance for shaping potential technopolis territories. Development of innovation resource and of a knowledge city appears as programme elements.

#### *3.2.5 Emerging problems and experiences regarding the programmes*

##### ***Emerging problems regarding the Pole Programme***

##### Lack of collaboration

There is a low level of collaboration between the actors of economy (corporations, universities, research institutes and administrative organs) in Hungary in general and in the BMR in particular. In the expenditures on R&D by the corporate sphere MNCs and a couple of domestic big enterprises play a key role. They as a rule establish a research basis of own in Hungary (some research institutes of MNCs have settled in the area of Pole taking advantage of the availability of human resources) or abroad; not seeking for opportunities of cooperation with university workshops. Institutes engaged in applied research have scarce contact with SMEs, as most of the former work to order from abroad or do research for domestic big enterprises. SMEs are not innovative enough and do not have sufficient capital to finance R&D activities. Therefore R&D activities of the domestic corporations are weak coupled with a low level of R&D cooperation. SMEs are more open however towards collaboration with the university sphere, especially towards participation in joint actions such as budget-supported competitions.

### Lines of division between the pillars of knowledge basis

There are serious lines of division existing between the pillars of knowledge basis. This is particularly valid for the contacts between the corporate and university spheres but less typical of those between universities and institutes of the academy. The cooperation between the universities fostered spectacularly for the past years thanks to the Bologna process.

### Lack of motivation in the cooperation

The innovative corporations barely find appropriate partners in institutions of higher education as the universities are not interested enough in marketing, in spite of the growing expectations towards direct application of the results in practice. R&D is not represented at the universities satisfactorily, research is pushed to the background, and there are not research universities in Hungary. Moreover, the sphere of economy is rather distrustful towards the universities. Innovation willingness of corporations and R&D expenditures are at a low level; corporations do not intend to market knowledge-intense produce, they are typically uninterested in R&D.

### Lack of information and knowledge transfer

An important reason for the emergence of division lines is insufficient communication. There is an abyss between the domestic R&D sphere and corporations, that is why there is a very slow flow of knowledge and it curbs technological development. Innovations in corporations are based upon developments of their own, they barely apply information from outside.

### Dissonance between the structure of education and labour market

Requirements of the economy do not appear sufficiently in vocational training and R&D, there are deficiencies in the feedback mechanism. A change of attitude should be made in education development and research to take direction towards practice- and market-oriented education and training. It is characteristic that these creative and knowledge-based branches still profit from the previously trained highly qualified professionals, and the present system of education cannot produce highly skilled specialists; if yes, they go abroad to work.

### Problems of financing; financial counter-interests

Budgetary support of R&D has reduced but two thirds to three fourth of similar expenditures is still financed from governmental sources; there is a very low rate of corporate expenditures. Even the basic activities in R&D of universities are not granted as normative regulation is only valid for education activities. A system of financing innovations adopted in the developed market economies has not been established yet (financing risk capital and bank sin working out products and new technologies).

### Deficient communication and publicity

Publicity is very weak, the actual successes do not reach the professional public, innovation publicity does not exist. Success stories with a positive impact upon exports do not attract publicity because they are not related to a concrete target group (like e.g. the situation of retired people or kindergartens in a political sense). Innovative thinking is not typical of ordinary people therefore innovation is not paid attention to it deserves. "Society based on innovation and knowledge" is a nice slogan, but the message has not reached a mass of people and only those belonging to the specialists' circle are interested.

### ***Empirical experiences of Budapest Innopolis Development Programme (BIDP)***

#### Linkage of the strategic priorities to the strong points of Budapest

There was an unambiguous relationship between the three pole strategies and the endowments of the city. Instead of representing vision of the future they took into account the actual opportunities. This way the three thematic strategies show those branches where the driving force is innovation and creativity, so the specialists interviewed considered the implementation viable. No new points of breakout were envisaged by the interviewees so far, they claimed that the leader drawing branch in the BMR is to emerge from among these three development strategies.

#### The impact of BIDP upon competitiveness

As shown by statistical data, export indices dropped abruptly and GDP decreased in the BMR during the crisis of 2008–2009 but the medical branch e.g. was able to make a step forward and developed and the clusters all in all managed to raise international visibility. Undoubtedly the strategic directions have had a positive effect upon the competitiveness of Budapest, but not to an extent it would have been possible. In the opinion of the experts it is not due to the actions of businessmen, rather to the decisions taken by politicians and by leaders of economic policy. Indications from the business sphere were not taken into account by the politicians as it must have been.

#### The role of intermediary organisations

After Pole Programme was adopted politicians and decision makers had to be made understand what cluster means, how it works, because they did not see its essence and importance. In this respect the role of institutions in intermediating and information forwarding (e.g. Budapest Enterprise Agency). The political leadership and economic management understood eventually, what kinds of advantages a cluster might offer. The intermediary institutions have important part to play: they know the way how to include creative and innovative targets into invitations to tenders.



## 4 ADMINISTRATIVE STRUCTURE AND GOVERNANCE ARRANGEMENTS

### 4.1 New administrative structure implemented during transition

During the socialist era the sub-national governments were essentially deconcentrated unit of the central government and had little or no financial autonomy. The change of political system caused a fundamental change in the governmental and administrative system of the country. The local councils under the direct control of the state were replaced by the democratically elected local governments. Act 65/1990 re-established self-governance in Hungary and communes enjoyed equal rights independently from their size or legal status. One of the most important consequences of the transition was the financial strengthening of local governments and the *independence in decision-making*. However, local financial autonomy is still limited because central government is not very keen to allow local governments to become powerful political entities. Thus, local governments remain strongly dependent on central transfers. Although power sharing between the national and local levels changed substantially during the transition, the central state managed to preserve a strong influence. Large cities, especially Budapest, usually have more room in the development of their strategies, because in the absence of strong regions they are the only potential alternative power centres to the central state (Tosics 2005a).

Until 1997 the Budapest Agglomeration included 43 settlements and the city of Budapest. In 1997 the Budapest Agglomeration grew to 78 settlements and Budapest. Thus, in 1997 there were 102 independent self-governed units in the BMR: Budapest, 23 city districts and 78 agglomeration settlements (due to separations their number grew to 80 up to now). In Budapest, there was 22 elected local governments on the district level (which grew to 23 by the division of the 22nd district in 1994) plus one for the entire city of Budapest (the Budapest City Government). The agglomeration settlements also elected their own governmental bodies, meanwhile they all belonged to a higher administration level, that of Pest county and of which Budapest is independent. In the post-socialist administrative structure, city-wide coordination (above the district level) became very difficult, while coordination between Budapest and the neighbouring settlements became practically impossible. Around Budapest an even more fragmented system developed, as the earlier very powerful middle tier, the county self-government was substantially weakened in 1990. Pest county has practically no power to influence any of the decisions made by the settlements. As a result the settlements around Budapest became very strong, having the right to decide by themselves about conditions for industrial, service or residential development, including decisions concerning the zoning of land.

The major contradictions of the *two-tier administrative system* of Budapest are mainly due to the overlapping spheres of responsibility and the conflicting political interests. In some respects Budapest remained centralised (strategic development of the infrastructure, public transportation) while others such as the distribution of resources followed a decentralised

model. The two-tier administrative structure is not very functional, because the two (city and district) governments could successfully block each other's ideas. The modification of the Law on Local governments in 1994 gave the municipality level more rights, especially in strategic planning for the whole city, however, no of the laws dealt with regional issues or with the problems related to the urban development in large agglomerations like Budapest.

Right from the beginning of the 1990s it was extremely complicated to harmonise interests and development plans on the territory of the BMR. The conflicts were developed over the clashing interests of the districts and the City Government on the one hand, and between Budapest and the agglomeration settlements on the other. The agglomeration settlements with the problems caused by growing suburbanisation had also different interests from the rest of Pest county, where they administratively belonged to. In spite of the fact that in the 1990s the coexistence and interdependence as well as the physical linkages of Budapest and its agglomeration zone were further intensified Budapest Agglomeration remained only a statistical but not an administrative (not even a real planning) unit.

For the coordination of responsibilities overarching administrative units it was legally allowed to ally and act in the legal form of 'local government associations'. The associations however were not based on real partnership but on compromise mostly with the interest of successfully competing for development resources. Common interests of city-districts and suburban settlements of the same location or type were already realised in the 1990s which increased the intention of cooperation but these embodied in real forms of cooperation and projects only after 2000.

In this very fragmented system the importance of the sub-national level was acknowledged in 1996 with the Act on Regional Development, which established development councils at the country and regional levels, such as the Budapest Agglomeration Development Council. As a consequence of the Act the Development Board of the Budapest Agglomeration was established which intended to integrate representatives from the public private and the non-profit spheres. The Development Plan (Concept) of the Budapest Agglomeration was the product of this period (1998-99). The Concept was never put into practice lacking the governmental asset. The Board ceased to operate by the establishment of the Development Board of the Central Hungary Region in 1999. Within the Regional Development Board the affairs of the agglomeration are dealt with by a sub-committee within the Strategic Planning Board. The plans prepared for the development of the Budapest Agglomeration were only enough to call the attention to the dangers of the uncoordinated competition for development resources for inhabitants and investments, which led to wasting resources and environmentally unsustainable development already in the middle of the 1990s.

## 4.2 Main stakeholders and actors

Within the policy making process in Hungary there can be distinguished national, regional, county and local levels. They differ strongly as far as the preparation and implementation of policies and strategies are regarded.

### 4.2.1 State level and the national government

Despite the democratisation process having taken place since 1990 the *policy-making system in Hungary is still relatively centralised*, with basic decisions made by the state government (the prime minister and ministries), which is the primary initiator of legislation. Due to the strength of the prime minister's position, the independence of ministries from parliamentary control, and party centralisation, Parliament exercises only limited influence in the development of policy. The yearly budget is the main source of parliamentary influence. But the government makes the preparation of the budget, with the Finance Ministry playing a decisive role. The government and the individual ministries have broad powers to use decrees as administrative tools.

The activities of the governmental apparatus are assisted by organisations of the parliament and governance, by consulting and executive institutions. Their responsibility is preparation of working papers, background materials and professional essays based on the governmental decrees on the one hand, the provision of information flow on the executive side, giving support to and conduct control over the implementation of tasks on the lower levels.

In Hungary in the policy-making process the *objectives and development trends determined by the EU have an imperative force*. This way the governmental decision making relies basically upon the guidance and directives issued by the EU when planning steps of macroeconomic development.

In the course of the decision making process aimed at the solution of issues in economic policy the government and ministries (with various intensity and more or less success) carry on trilateral negotiations with the representatives of the employers' side (state and private enterprises, private investors) and the delegates of the employees' side (trade unions). Besides, professional consultations and reconciliations are going on with the officials of boards and organisations active in the given sector of the economy (e.g. chambers). The ultimate decision is in the hand of the government or depends on the resolution of the parliament based on the governmental proposal.

### 4.2.2 Regional level and the counties

The regional level has not had any traditions in the Hungarian decision making process. The seven NUTS II regions operating currently were formed artificially after the regime change via adaptation to the structure of regional policy of the EU, on the basis of the traditional county system of administration.

The Act on Regional Development passed in 1996 established two regional institutions: the planning-statistical region and the development region. The development region is a possible solution to the initiation of regionalisation; it incorporates the territory of one or more

counties or the capital and must be established through free association. The counties involved in the association create a common organ – the regional development council. These regional development councils and its working bodies (agencies) were established outside the public administration, duplicating institutions and activities. Lacking a stable idea about the optimal territorial scale of development policy, we built the institutions at four levels (national, macro-regional, county and micro-regional). If one should characterise the spirit of the system we could state that Hungary has a regional policy without real regionalism. There are institutions and regulations simulating the European requirements but Hungarian politicians could not understand the point of the system, therefore Hungary was successful in the adaptation but not in the learning. The most important feature of the Hungarian system is that it has remained centralised. In 1998 parliament issued a resolution on the National Conception of Regional Development establishing seven planning-statistical regions in compliance with the NUTS system. This framework also clearly established the political intention to shift the system of counties towards regionalisation.

Central administration provides meagre financial source for the operation of the regions, so they still have limited influence with a subordinate role in decision making, dealing predominantly with coordination of the affairs.

In Hungary *the counties* were almost always the dominant territorial units of the state. As Hungary is a traditional centralised unitary state, the territorial governments were the means to transfer the will of the central power independently from their local governmental or deconcentrated status. Looking at the history of Hungarian state reform or periods we can state that in the framework of changing content, the status of the counties, and the dominance and scale remained permanent. The change of the system during 1990 caused a complete restructuring of territorial power: municipalities became the dominant units, on the one hand but their dominance and efficiency is limited by the fragmented structure, on the other hand. The former role of the counties was eliminated, on the one hand but it did not increase the power of the municipalities, rather ensured the expansion of deconcentrated administration, on the other hand. The middle tier of governmental system consists of nineteen counties. Municipalities provide local public services to their settlements; counties have a subsidiary role in that they provide public services that settlements are not capable of performing, as well as those that have a regional character.

We can conclude that in spite of the municipal autonomy, the *change of the local governmental model could not decentralise the state*, the uncertainty about the scale and necessity of meso-level governance, the model of territorial power has remained unfinished yet. In 1996 the Act on Regional Planning and Development established the institution of county development councils, which are quasi-governmental organisations that coordinate tasks related to regional development. The council is comprised of elected and appointed officials. Representative bodies of municipal governments may create regional development associations, but this is not obligatory. County development councils may form regional development councils that address responsibilities extending to more than one county.

### 4.2.3 *Local level and the municipalities*

Before 1990 the state administered local affairs in accordance with the principles of centralisation and hierarchy through a system of councils on the local level. In 1990 the Act on Local Governments established the legal foundation for the process of democratisation and reform of the political system. The Act on Local Governments recognised the rights of local communities, including the smallest of settlements, to self-government in managing local affairs, and the number of local units increased to 3,149, all of which elected their own representatives and executive organs. Local governments can build associations, their right to associate is declared by the Constitution of the Republic of Hungary. This right is particularly important in Hungary, where there are a high number of small settlements with wide legal and administrative autonomy and thus the fulfilment of their functions and powers is difficult. The general role of associations is to increase the efficiency of local governments.

Budapest has special legal status. The city has a two-tiered system consisting of the self-government of the municipality and those of its twenty-three districts. The municipal government of the capital and its districts have independent functions and powers. The district governments independently fulfil the functions and powers of municipal governments. The government of the capital fulfils mandatory and voluntarily assumed municipal government functions and powers that affect the whole city or more than one district, as well as those related to the special role of the capital within the country. In practice the tasks and services provided by the two levels are not differentiated. The functions and powers of the capital are similar to those of the county in that they are not specified by legislation.

National government supports the development of regional and local strategies and programmes because of the key role local actors play in identifying solutions for local problems and in recognising locally specific opportunities for growth. However, while regional and local development interventions are widely seen to be of value, the measurement of their progress and impacts is often too weak to enable evidence-based policy improvements.

#### ***Internal structure of decision making in local governments***

The basic rights and powers of local government are exercised by the *body of representatives*, which may delegate authority to the mayor, its committees, city district bodies of representatives and bodies of local minority self-government. Committees of the local body of representatives are elected organs. Committees prepare decisions of the representative body and oversee the implementation of such decisions by the office of the representative body. The mayor is the political and administrative head of the local government and is responsible for local policy implementation.

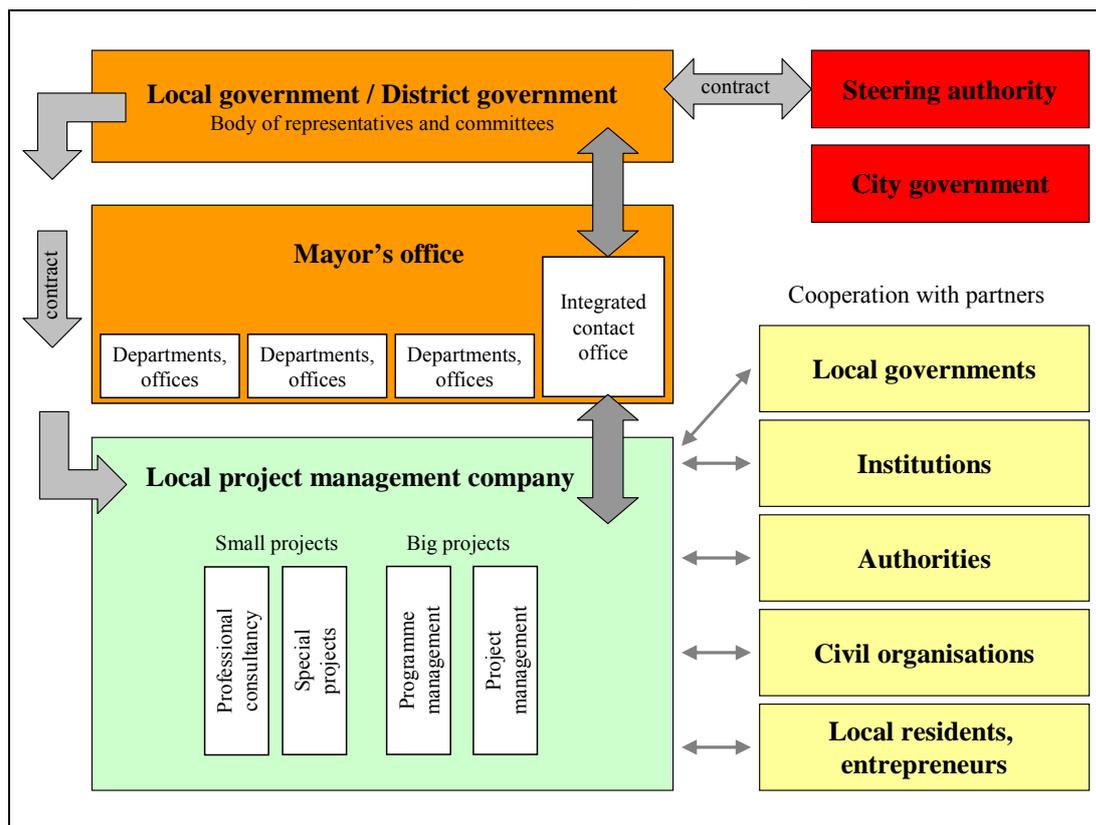
With regard to spatial planning (which is mandatory), both the methods by which it is devised and its contents are regulated. Even some sort of citizens' participation is ensured, since the plan has to be put into the public domain twice before its final acceptance, during which time anyone may officially raise an objection to it. On the other hand, with regard to sectoral and strategic planning, there are no official constraints. How strategic planning is carried out

depends entirely on the local government authorities. There are several models; some cities undertake the bulk of the job themselves, and others – such as Budapest - have commissioned a group of experts. It can be stated that the process of strategic planning has in most cases opened a crack between the closed doors of the local authority and allowed both the civil society and the experts to bring more influence to bear. However, what is still clearly lacking from the whole process is the participation of residents. Even in a case of urban renewal, where the residents are directly affected, resident groups find it difficult to make their voice heard.

There are several forms of *public participation in decision making*. As determined by the Act on Local Governments, the body of representatives must establish the rules of public fora, the goal of which is to determine public opinion and invite public involvement in the preparation of important decisions. Citizens may also participate in local decision making through membership on committees of the representative body. Traditionally, members of a committee include representatives of significant organisations providing services in the field of the committee's responsibility, a delegate of a relevant civil organisation and other citizens using the services.

In the new century the Budapest municipality attempted to establish control over the market-led development. The municipality promoted urban renewal through a limited action-area approach and aimed to apply integrated solutions to solve the urban challenges by combining economic, environmental and social interventions. However, Budapest, like other post-socialist cities, lags in its level of control over market processes and of public interventions. The public sector's role in urban planning and policy can be characterised by limited capacity to deal with urban issues, constrained authority and power relations, increased responsibilities and persisting financial problems. The modest attempts of the Budapest municipality to foster public involvement are often criticised by other stakeholders, namely the major developers, who complain that the public sector constrains development with unnecessary regulations.

Local governments (in Budapest the districts) are the most important players in local decision making. They maintain contacts with the ruling authorities representing the executive body of national government, handling and controlling governmental projects, and in Budapest with the City Government. On the executive and authority level municipal governments are represented by the Mayors' offices and its sectoral offices. Local governments (in Budapest the districts) often create *independent organisations* in the possession of their own, which appear on the market as independent economic units (Figure 4.1). This is advantageous because they can get rid of political skirmishes when implementing the project cycle and leads to a closer cooperation with the stakeholders of different levels.

**Figure 4.1 - Institutional matrix of local governments' policy making process**

Source: After Rév8 Urban Development Company

#### 4.2.4 NGOs, civic organisations and local residents

In western societies economic processes are supported by a *higher level of institutionalisation* and there usually emerge a closer collaboration and partnership between the participants and stakeholders. In Hungary the gravest deficiency of projects is the lack of cooperation. Whereas in the western countries the *local societies and civic organisations* are active participants in the planning and implementation processes, in Hungary the affected persons as a rule are passive.

During the past years the representatives of local communities increasingly recognise the opportunities offered by the civic sphere, NGOs have more and more role to play in shaping local societies, but all these are lagging far behind the west European standards and there are just a few really efficient organisations of such kind operate in Hungary. Politics and local governments might also be blamed for this situation as civic movements are not considered by many politicians and members of local government as partners but barriers to overcome instead. In the opinion of experts the problem is that politics deal with the civic sphere only in the case the latter brings in votes. Both actors should go through a process of learning: not only the civic sphere needs local governments but local governments do necessitate civic organisations. The latter may help the former in their activities considerably but they may present a hindrance as well.

Civic organisations might be instrumental in taking-off of local economy. Beside getting acquainted with the democratic rules of the game they have a role to play in the process of mutual learning, may turn into the active domains of collective support, enhance personal and neighbourhood awareness, enlarge contact network and capital of participant – all in all these organisations raise the level of social capital (Field et al 2000). The lack of civic organisations and courage, a traditionally weak ability to enforce their interests is one of the greatest problems of the communities of local residents. This is partly the reason why Hungarian population basically lacks the ability to cooperate and its willingness to collaborate is much weaker than that of the nations in the western neighbourhood.

One of the most serious problems of civic and pressure groups is the lack of capital as financing and support could not find solution heretofore. Within the support system for the sake of ensuring financing these organisations have to perform tasks which are time and energy consuming but produce little professional use. At the same time dependence on central or local governmental financing could exert a negative impact on the independence and impartiality of these groups.

One of the key issues of the success of a city or neighbourhood is how civic organisations representing the interests of the local society and residents with an increasing vehemence might be involved in the works of urban renewal. Local societies as a rule tend to recognise the issues affecting the quarter and quality of life there but local people are somewhat reluctant in seeking solutions and they are not willing to take part in the process of renewal. Civic organisations are more interested in processes taking place and their self-representation is more dynamic than that of the local society. With the reinforcement of civic sphere the self-representation of local inhabitants would grow as well. So the *activity of the local society* may be raised via the actions in the civic sphere than with those of the individual level. But it is a fact that the eagerness of civic organisations depends on the local circumstances: it shows considerable differences by city and neighbourhood.

#### *4.2.5 Relations between local governments and actors of the market*

When studying the objectives of the administrative power one of the angles might be the character of interests to be prioritised and alternatively which of them are to be pushed into the background; and what are the tools and mechanisms to be applied. In short, what compromises are concluded by the local government and what is the price it is willing to pay for them. Another dimension of the interpretation of the operation of power may be a study of which part of the spontaneous processes is tolerated (or even supported) and what could be the extent of influence of the planned and conscious policy elements.

As it has been mentioned the Hungarian system of administration ensures autonomy and jurisdiction for the local government on a broad basis but meagre source is available. Therefore local governments struggle perpetually with financial problems. A frequently applied strategy is making efforts to capture central sources via mobilising political influence and even taking political risk to attain this goal. Another kind of strategy might be to increase efforts in order to attract investment sources on the market with a sore lack of capital. For this purpose they tend to satisfy such requirements of private investors which would be rejected

should they be in other, more favourable position (Csanádi et al 2008). This has led to a situation where short-term strategies and policies, systems of regulations, permissions and supports have become highly accommodating and social, other economic and environmental considerations are pushed to the background. The more important decision might be taken on a relatively low level (e.g. on the level of districts) and the less is the publicity of these decisions, the more opportunity have the entrepreneurial interest groups to persuade the decision makers that they are the only potent groups to develop the given area. Several examples of such negative processes were shown up in Budapest, scandals and economic interpenetration were disclosed during the past years.

Due to the above circumstances an ever greater role is belonging to the representatives in the process of economic development. The key decision making organ on the local level is still the local government, but there is a prevalence of the private sphere in financing. Therefore in the elaboration of strategy and policy the *interests of private investors* (profit maximisation) enjoy priority, which is also in accord with the interest of local government (revenues for the further operation). So conflicts as a rule emerge not between market actors and local government but with the professional boards and civic organisations and with local population.

### **4.3 Problems and conflict fields within the administrative system**

The post-socialist transition resulted in a well-established system of local governments, whose independence became the cornerstone of the new democracy. However, the elimination of the power of the middle tier (counties) and the weak definition of the regions resulted in strong competition between the municipality and the settlements of the surrounding area. Similarly, the relatively weak position of the municipality over the districts resulted in strong competition between these local governments (Tosics 2005b).

The *conflicts between the municipality and the districts* are partly centred on the allocation of the financial means for development. Some resources are clearly directed towards the municipality, some to the districts. The bulk of the money however, must be allocated between the two levels in the course of negotiations, which create sharp conflicts each year. Another issue of debate is the allocation of regulatory power. In the two-tier local government system, the details of the decision-making system on zoning regulation and planning permission procedures are constantly debated. The districts are also in competition with each other, fighting for advantageous changes in the regulations and for developers willing to invest in their district, with little or no regard for the interest of other districts or the city as a whole.

Conflicts in Budapest exist nowadays between the municipality and the districts (e.g. use of green areas and building rights), between the municipality and the surrounding settlements over spill over effects, between public actors and private developers over shopping centres and between public/private actors and the local residents. However, territorial conflicts are still relatively peaceful in Hungary and Budapest compared to Western European counterparts.

The *conflicts between the city and the settlements of the surrounding area* can be described as the "normal" conflicts of suburbanisation in a largely unregulated system. All players want those investments, which bring the most revenues for their settlement, while they want to avoid paying the price and do not want to take externalities into account. A typical outcome of this situation is the large suburban residential development with no public services (families should take the kids into Budapest to kindergarten, to school) and no regard for externalities (such as the increasing car traffic through other settlements and in Budapest).

Under such circumstances all local governments opt for short-term gains, even if it is clear that the outcome might be sub-optimal in the long run and/or from the perspective of the larger area. Developers can easily gain from this situation, rejecting the fulfilment of any special conditions of local government, in the hope that the other local government will pose fewer conditions.

#### **4.4 The role of cooperation in the international competitiveness**

From an administrative point of view Budapest has the advantage that the Central Hungary Region also covers the surrounding Pest county, whereas in the cases of Vienna, Prague and Bratislava the capital cities are cut off from their agglomeration areas. The NUTS II level, although quite weak at the moment in Hungary, get a key role in planning, as this became from 2007 the allocation level of some of the EU Structural Funds.

Good cooperation and the use of governance methods were, however, not the practices of Hungarian local governments in the last two decades. This situation will hardly change from the top, as in the short term there is no chance of a change in the legal environment. In other words, there is no hope for a new regulation, giving more power for the municipal level over the districts and for the regional level over the individual settlements. Consequently, changes towards more cooperation and governance should and must come "from below". Most recently there have been some signs that the key players have recognised that the potential of the Budapest economic area can hardly be realised with continuing inner conflicts.

For Budapest, the efforts of Vienna to organise territorial cooperation are of special importance. Currently Vienna has substantial advantages within the "Centrope" area, and cooperation with Budapest, which was earlier substantial, has been neglected. However, for regional cooperation a common history is important. Thus Budapest could have more potential to be included into the Vienna-Bratislava cooperation, than with some other players of "Centrope". The EU membership clearly created new chances for Budapest. The excellent geo-political position of the city as a centre for transfers between west and southeast Europe with growing EU support, will lead to increasing international competition, especially with Vienna. However, both cities should be aware that competition in some aspects does not exclude the opportunity for cooperation in other aspects, which could jointly enhance their position in the globalising world.

## 5 CRITICAL EVALUATION OF POLICY AND STRATEGY BUILDING PROCESSES

### 5.1 Priorities of economic development in the Budapest Metropolitan Region

On the basis of statistical data it could be pointed out that in Hungary creative industries comprise the largest number of enterprises and employees and they have greatest revenues within the creative knowledge sector. It is also remarkable that in the past ten years BMR was able to increase its relative weight in this sub-sector within the country. The overview of existing strategies and policies also showed that some creative branches are among the drivers of the economy both within Hungary and Budapest, and also the necessity of the development and support of creative industries is expressed in principle by the different documents, nevertheless it is barely appears in the practice (in invitations to tender, appointment of support). In spite of the neglect the sub-sector has experienced a positive trend over the last years which can be explained by the fact that the creative industries are generally less policy-sensitive than the knowledge-intensive industries. In our experience in the creative sub-sector it is more expedient to apply “*laissez faire*” attitude and both the central and local governments are better to appear in the role of supporter and assistant than active policy forming power. However, this trend cannot be still recognised in the current policy and strategy building processes. Naturally, the support of the creative industries is considered when budgets of Budapest or other cities of the countryside are on the agenda (e.g. cultural events, festivals and institutions of Budapest), but the system is not going to be coherent, i.e. a long-term vision and points of breakout, new options are not recognizable in the system of support and financing of creative industries.

It can be stated that in the development strategies and policies *in Budapest priority is given to the knowledge intensive sector* and creative industries play a subordinated role in this respect. It is indicated by the aims of thematic poles: MediPole, ITT Pole, EcoPole. According to our analyses it is ICT that reached the most dynamic development in Budapest over the past years so the advancement of ICT is in accordance with the results formulated by ACRE project. Pharmaceutical industry was not studied but knowing Hungary’s situation and prospects it seems to be a realistic field of development. Of the three development strategies it is EcoPole that seems to have the weakest position, because according to our results the situation of environmental protection and environment conscious lifestyle in Hungary and Budapest are still lagging behind West European countries and cities. In this respect however, this strategic priority might have a consciousness forming impact in the future in Budapest.

With regards the rest of the knowledge-intensive industries involved in the survey no strategies were prepared in the field of Finances and Law and Business activities but there are clear development policies for the enhancement of R&D and higher education formulated by the central government. At the same time the trend of development in R&D and higher

education was controversial during the previous years, because the number of employees decreased in these branches in Budapest whereas the number of enterprises and amount of revenues steadily grew. The weight of Budapest within Hungary also decreased which reflects the strengthening position of second rank university centres like Pécs, Debrecen, Szeged, as an outcome of national decentralisation policy.

## 5.2 Decision making processes in different levels

As it was stated in the previous chapters, mechanisms of decision making are highly centralised in Hungary. This also means high influence of strategies and policies formulated on the national level. Since there are permanent financial problems (i.e. lack of finances) on the lower levels of administration, on these levels the decision making process of these lower levels is determined by higher level strategies and policies in a clear-cut top-down manner. It means that practically (in order to enlarge meagre and barely available sources) policies on the national level stick to EU targets, whereas regional and local strategies and policies follow national directives in the hope of raising money. Thus, *each level of decision making are strongly influenced by directives from the higher level* and in an attempt of receiving potential sources they try to formulate as many priorities and policies from the superior ones in their own programmes as possible. However, in this way the essence of policies becomes frequently lost and key priorities are often missing from the strategies and policies or they are distorted. And the way around: politicians as participants of decision making stick to development directions and options that are less relevant but offer a chance of attracting potential financial resources.

In Hungary and Budapest the *decision making process is strongly penetrated with politics* pushing very often professional aspects to the background. It occurs frequently that strategies and policies thoroughly prepared professionally become overwritten by political force. The two big political parties have sunk in deep antagonism and politologists refer to the emergence of a dual system. This trend has not been in favour of harmonic economic policy either, as the representatives of the conflicting sides proved to be unable to collaborate with each other and make compromises for the sake of solution of social and economic issues.

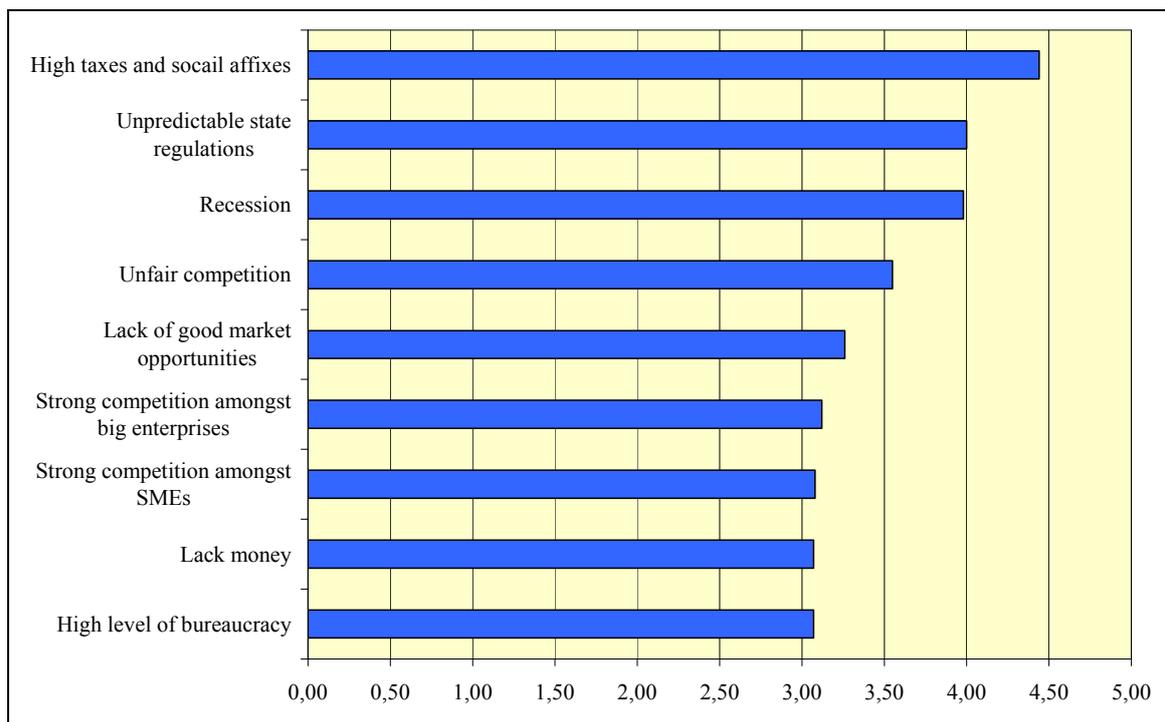
The low level of political culture in Hungary was confirmed by all three groups involved in the ACRE survey (employees, employers, transnational migrants).

The managers of economic enterprises expressed a heavy criticism about the decision making process, when they claimed that in Hungary SMEs are not supported sufficiently by the economic policy (an overwhelming part of the firms in the creative knowledge sector fall into this category) and it is unable to create favourable economic climate and conditions for the development of creative and knowledge-intense industries. The results of ACRE project that the most serious hindrance to the economic take-off are the heavy burdens of taxation and social insurance and unforeseeable changes in governmental regulation was also confirmed by independent surveys of other projects among SMEs (Figure 5.1).

In the course of the elaboration of strategies and policies reconciliation with the representatives of corporate system, of professional and civic organisations is a rule in the

preparatory phase. This collaboration however, differs very much according to the level of decision making and by settlement as far as its depth is concerned. Reconciliation might range from a fruitful cooperation with NGOs and local residents to “the formal and compulsory minimum”. Based on the in-depth interviews with the managers and network actors carried out in the empirical phase of ACRE project it can be stated that the process of reconciliation is far from being harmonic in Hungary and in the BMR. Both SMEs and representatives of local residents feel that they have little influence over the matters in the planning phase and their voice does not get through or great efforts are necessary to push it through. In this respect various intermediary organisations have their role to play as they can represent the interest in a more effective way.

**Figure 5.1 - Obstacles of economic development for Hungarian SMEs (n=496)**



Source: Market Economy Foundation, University of Pécs – Faculty of Economics, 2007

(Legend: 0=no problem; 5=very big problem)

Some words need to be said about the changes in the system of tenders. There was a general opinion among the managers interviewed in the ACRE project that the conditions of tenders do not favour micro- and small enterprises. From an administrative viewpoint the problem is that the process takes too long and the cycle is also too long from submitting the application until the transfer of the price, besides there is too much paper work involved. The system of tenders must be improved towards more flexibility, shorter terms and quicker reactions. According to experts and professional organisations that have pursued monitoring, invitations to tender have developed fairly well over the past years (e.g. those announced by National Development Office) so a step has been made forward in comparison with the previous period.

Nevertheless, there are two sides of the cooperation in the decision making process: it is not only the administrative institutions that hesitate to collaborate but the professional and civic

sphere and local residents behave also very often in this way. Thus, a typical negative factor for the competitiveness of the economy is the aspiration of actors of Hungarian economy and enterprises to be independent (a frequent lack of willingness to collaborate, drawbacks in the operation of professional networks). The willingness and depth of cooperation, however, show striking differences by sectors and branches of the economy. There are also considerable differences with regards cooperation with universities, research institutes and public institutions in the different sectors and branches. There is a very slow move forward in this respect and it will take several years when cooperation reaches an acceptable level.

In the BMR one of the hindrances of economic development is the absence of a concrete business strategy and perspective thinking of micro-, small and sometimes middle-sized enterprises. The management of the firms as a rule has some concept and concrete plan of action in the short run but there is no vision of medium- and long-term strategy determining the advancement of the firm. A further drawback is a poor marketing activity of enterprises along with too much investment in product development. Another problem in creative and knowledge-intensive branches is that the business managers of the enterprises (especially those of the smaller ones) are often passive on the market.

### **5.3 Development of clusters**

Economic development has been accompanied by cluster development within the different sectors and branches. *Clustering had hardly any traditions in the BMR*, it has just started and this process is still weakly developed. Thus, the process of clustering, its realisation and acceptance by the management strata interviewed in Budapest could not be disclosed in the metropolitan region unambiguously. The sub-sectors investigated within the ACRE project behaved rather differently: in ICT sector there are clear signs of clustering (e.g. Graphisoft, Infopark), though in the opinion of some experts it is an artificially generated process rather than a spontaneous, market led development. On the other hand, no sign of clustering could be experienced in Business and management consultancy sub-sector, whereas there has been a kind of dispersal” in the field of Motion picture, video and TV activities sub-sector.

In the course of the professional interviews conducted within WP10 it has become clear that in the meantime *cluster development turned from the initial, artificially generated process into a spontaneous and bottom-up one* using the corporations' own resources. This economic development and making steps forward should be regarded an advantage for the sectors affected (see MediPole and ITT Pole presented earlier). It should be noted, however, that the firms previously involved in ACRE project belonged to the category of micro- and small-sized corporations. Our previous and current results might be interpreted in a way that cluster development is becoming an organic bottom-up process with the recognition by cluster members of the opportunities offered, this process however, has not yet descended to the level of micro- and small-sized corporations. For the time being it is the middle-sized and big enterprises with an abundance of capital assets and highly skilled staff that take part in cluster formations.

## 5.4 Development of hard and soft factors in the Budapest Metropolitan Region

Based on a survey conducted by the Economist Intelligence Unit Budapest occupied the 55<sup>th</sup> place of the 140 investigated cities of the world with regard to livability; with this result Budapest reached the highest position among the metropolises of East Central Europe. This reflects also that economic indicators and opinion of managers of transnational firms evaluate the hard and soft conditions provided by the city relatively well within the region.

Comprehensive development of hard and soft factors through policies and strategies does not appear to be a main priority in Budapest. This is partly the result of the top-down character of policy making which does not pay too much attention to local (site specific) factors.

Top-down and short-term way of thinking is very typical for decision makers in Budapest and Hungary, i.e. they tend to determine tasks of development for a given year when the annual budget is prepared, but they hardly consider long-term goals. Because of the scarcity of financial resources “fire-fighting” activities prevail (i.e. treating the most urgent problems) instead of thinking strategically e.g. which location factors should be developed in order to enhance the development of the creative sector in the long run. So the *development of hard and soft factors is more the outcome of routine development processes* than specific strategies. The direct steps to develop hard and soft factors are further hindered by the lack of analytical studies focusing on the economy of the BMR and the role of these factors. Thus, ACRE project has provided new and useful findings for the improvement of economic situation and development of the BMR in perspective.

Thus, a way of “thinking backward” had to be applied for the sake of development of the location factors. In the first place it was examined what kind of developments took place in the BMR, then they were selected according to the two groups of factors. Then it was established whether the given investments fit into the process of solution of problems typical of the BMR and of making improvement in the situation criticised by the representatives of creative class. As in Budapest (due to the independence of districts) the local targets and actions show divergence and their overview could have met difficulties, our analysis was based upon the development programmes of the City Government (with regards municipality responsibilities most of these measures are in the competence of the City Government).

In the previous phases of work limiting factors within the BMR were pointed out i.e. those which in the opinion of employees and employers could affect everyday life and long-term satisfaction negatively and, consequently, present a hindrance to the development of creative knowledge sector.

### *Measures taken for the development of hard factors*

Regulation of “cost of living” is an unambiguous competence of the central government. During recent years national politics recognised that the legal basis of taxation and social insurance need to be revised. However, *no solution has been found yet for the transformation of the great distributive systems* since the change of socio-political system. No deep reforms in education, health care, social insurance (pension funds) and in economy have taken place

yet. This is partly the reason why the living costs have been rising all over the country and in Budapest since the turn of the millennium. Although some steps have been made aiming at changes in personal income tax and social contribution of corporations (new tax regulations from 2010) these are far below the necessary level and they could hardly be labelled as far-reaching measures. This is one of the handicaps of Hungary and Budapest in the international competition of metropolises.

In the opinion of Hungarian creative people *urban transport is one of the greatest and still unresolved problems in Budapest*. (Quite interestingly foreign creatives are fairly satisfied.) In recent years the City Government of Budapest has paid an increasing attention to improve the situation. Nevertheless, over the past two decades a considerable deficit has accumulated concerning developments and investments that cannot be tackled properly in the short run (reconstruction of urban roads, problems with car parking, integration of means of transport, solutions for suburban transport etc.).

A major problem concerns public transport. Its rationalisation started in the past years, i.e. harmonisation of bus schedules and change of tram relations (e.g. to create direct connection between the northern and southern parts of the city without changing lines).

One of the fundamental problems is that public transport is used only by 60% of the population and the number of passenger cars grows by 15–20 thousand annually. The road network is failing to accommodate the growing traffic. Road reconstruction started in 2005 with a target to renovate 500 km by the end of 2010. To eliminate problems with parking (increasing fees, a low number of parking lots in downtown) new P+R projects were launched in 2009 and in the years to come 570 lots are planned to be established at 6 different places. Simultaneously, 5 underground garages will be built in Budapest downtown with a total capacity of nearly 4000 lots (Borsodi-Dobos-Király 2009).

In the framework of the programme named Heart of Budapest three projects have been launched in the downtown of Budapest: i.) improvements in pedestrian and cyclist traffic with the reduction of vehicle traffic; ii.) a zone of walkers along the Danube (renewal of the Corso); and iii.) formation of representative gates in the City. Construction of the new (4<sup>th</sup>) metro line is continued using EU financial support, whereas new wagons are to be purchased for the existing lines.

Cyclists' traffic is underdeveloped in the BMR: it has a mere 1-2% within the whole transport on a normal workday. Cyclists' Budapest Programme was launched in 2009 to systematise and determine the framework conditions and regulations of this specific kind of traffic and to raise its share up to 10-15% within total traffic by 2015. Cyclists' tracks might be enlarged by 10 new sections in 2010, a leasing system of bikes is to be started in 2011 and B+R (bike and ride) parking lots are to be paved in the same year. These developments have proven that the attention of decision makers has moved towards the improvement of traffic situation recently, and this could be instrumental in the enhancement of competitiveness of the city.

In the framework of *the protection of built environment* 600 monuments or buildings with monument character were renovated in Budapest during the past 15 years. To support the rehabilitation of buildings with townscape importance (but not designated as monuments) a special fund was created (Support of Settlement Values) and more than 1000 edifices were renovated in the last 10 years. City Government of Budapest provided support for the districts to carry out their urban rehabilitation programmes and the renovation of condominiums and also launched a programme of housing development to build new public rental units. The movement „I love Budapest” is aimed at the improvement of the built environment to get rid

of graffiti and posters by the end on 2010. Another large-scale renovation project was started in 2010 targeted at 17 underground passages to be turned into „ecotunnels”.

It can also be stated that measures taken for the *improvement of conditions, size and quality of green spaces fall behind the requirements*. Along with large-scale revitalisation projects (Public Garden and Orczy Garden) there remains a challenge of maintenance, renewal and development of smaller green areas in the city-districts.

It might be stated that the measures already taken over the past years and the investments to be made in the near future are going to affect all groups of hard factors limiting the economic development of the city according to the representatives of the creative class.

### *Measures taken for the development of soft factors*

Institutions established and programmes organised are to be mentioned among the measures to improve soft factors, to reduce intolerance and to improve the situation of homeless people. In 2009 the Roma Cultural Centre was established in Budapest as a legal successor of two similar institutions entrusted with educational and cultural tasks among the Gypsy minority. Programmes include performances by ensembles and artists to raise minority awareness and propagate equality of chances.

To stop violence at schools and aggression among young people a *complex plan of action against intolerance and aggression* was worked out by the City Government of Budapest in 2009. The programme is in a phase of pioneering but it is important due to the wave of violence in the educational institutions in Hungary.

There are 25 organisations in Budapest that signed an agreement to collaborate in social provisions for homeless people. The most important of them are Hungarian Maltese Charity Service, Menhely Alapítvány (Shelter Foundation), Public Fund for the Homeless and Hungarian Red Cross. Also an important part is played by the Social Methodological Centre of Budapest with 10 sites and 400 employees and Social Depot collecting material offerings. Tenders are invited to ease lots of the homeless by two further public funds.

Even though various *cultural events and festivals* are not exactly aimed at enhancing soft factors of Budapest, they might be instrumental in raising quality of life in the city. Our research also revealed that cultural industries play an important role in the development of Budapest. In the field of cultural industries the creation of two new cultural centres plays an outstanding role: the remodeling of former gas-works as an industrial monument in North Buda and the regeneration of the former warehouses near the Danube in the centre of Pest.

Hungarian Tourism Co. Ltd. proclaimed *2010 the year of festivals* with the slogan: Festival City Budapest featuring programmes going back to many years, like the Spring and Autumn festivals, Summer on the Chain Bridge, Jewish Summer Festival, Budapest International Book Festival, Budapest Pilgrimage. A new hub is FUGA Budapest Centre of Architecture: beside collecting architectures and designers of modern trends it is the venue of cultural events, art exhibitions, concerts, children’s programmes and theatrical performances. The renewal of the Budapest Zoo and Botanical Garden was also an important development of the recent past.

*Thermal spas* are traditional and major attractions of the Hungarian capital. A short-, medium- and long-term concept of their operation has recently been worked out facilitating

their comprehensive development. A new attraction is the opening of a temporary plage on the Danube (with a pool of 2100 m<sup>2</sup>).

*Tourism marketing* in the city is addressed with much criticism by professionals for the lack of really creative and innovative ideas. Various thematic programmes have been launched such as the Budapest Adventures action with new experiences. A further development of soft factors is the night illumination of the bridges over the Danube and the main buildings to improve the image of the city. However, in the last couple of years no measures have been taken to make public places cleaner, to get rid of air and noise pollution, and to raise the political culture of the population or improve public security.

The present survey has proven that *both hard and soft factors should be improved in the BMR*. Our results and experiences in Budapest show that employees and employers tend to take into account both hard and soft factors in the course of decisions about their place of residence and the settlement and site selection of their firms, but in general the hard ones are more influential. In the case of Budapest it might have a special importance because as it was revealed by our survey highly qualified representatives of the creative knowledge sector were more satisfied with the soft factors of the city than with the hard ones. In this sense more emphasis should be placed on the development of hard factors in Budapest.

## 6 CONCLUSIONS

Analyses of the statistical data confirmed that the Budapest Metropolitan Region plays a decisive role in the creative knowledge sector of Hungary. More than 40% of the firms operating in the sector, nearly half of the employees and 60% of the revenues originate from the Budapest agglomeration. After the setback experienced following the turn of the millennium the BMR managed to increase its weight within the creative knowledge sector at all-national scale. Economic indicators testify its leading position within Hungary that guarantees some good opportunities for the city in the international competition.

The individual sub-sectors have different roles in the strategies and policies investigated: in spite of the favourable parameters of the creative industries in the area of the BMR, the development of the branches belonging to the knowledge intensive sector (primarily that of the ICT sub-sector) enjoy priorities in the policy documents. The development of creativity has been neglected for the sake of development of innovation and knowledge.

Strategies on the national level are harmonised with EU targets; accordingly certain emphasis is placed on the development of the creative economy. However, a typical feature of the policies and strategies in the first decade of the new millennium was their extreme diversity to capture the maximum available resources without a clear indication of key sectors and main development trends. As the regional level is weak in Hungary the development strategies follow mostly the national strategies and policies.

Following the change of regime the democratic transformation of the administrative system became adjusted to liberal principles. Consequently, a highly decentralised administrative structure has come into existence that empowered local governments with extraordinary freedom, independence and jurisdiction. As a result strategies and policies might be very diverse; in fact each local government has a development strategy and policy of its own. This decentralised system is characteristic for Budapest and its districts: there is no accord between the individual districts concerning the ideas on development, the collaboration between them is accidental and occasional, frequently poisoned with political conflicts and economic counter-interests. With regards local strategies, however, there is a harmonising power of the lack of financial resources enforcing the local strategies towards the line of national policies.

The decisive actors of the strategy building and policy making process are the state on the macro-level and local governments on the local-level. According to the legal regulations decision making should be preceded by reconciliation between the stakeholders, this process however is understood very differently by ministries, state authorities and local governments. As local governments struggle with a permanent lack of financial resources, private investors have a growing influence over the elaboration of local strategies and policies. This circumstance may turn local processes both in positive and negative directions. In economic sense the growing influence of private sector companies can result positive changes, however,

in social conditions this influence often create tensions.; Professional organisations (chambers, consulting companies and mediating agencies, trade unions) are important participants of the reconciliation and implementation processes, their lobby power however is lagging behind the actors on the market.

The same can be said about civic organisations: after the change of regime civil movements and local residents were characterised by a high passivity in the reconciliation processes, but over the past years positive changes took place in this respect. Although the level of organisation and financing of the Hungarian civil sphere is far below those in Western Europe, its ability to influence policies and urban development has improved a lot in the last decade.

The position of universities and research centres is controversial in the BMR: on the one hand R&D sector represents a considerable ratio within the knowledge intensive sub-sector, on the other hand, the weight of Budapest tends to decrease in the country. In West European comparison R&D can be characterised by disadvantageous conditions, on the other, hand, practical applicability of the acquired knowledge in higher education is weak and the collaboration between universities and the private sector is not satisfactory. At the same time, the universities have played a decisive role in launching and elaborating the new development programme of Budapest and in shaping the clusters.

Analyses of the processes having taken place during the past years show that the policy making has gone through positive changes though strategy building and policy making have remained top-down processes, and bottom-up initiatives only rarely reach implementation. The most important task for Budapest must be making the process of reconciliation smoother and to accelerate it which also means simplification. Stakeholders should mutually recognise the indispensability of cooperation. The lack of cooperation is a major hindrance of the current economic development, so clusters might receive a key role in the future.

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