

**CENTRE FOR REGIONAL STUDIES  
OF HUNGARIAN ACADEMY OF SCIENCES**

**DISCUSSION PAPERS**

**No. 21**

**Transformation in Central  
European Postsocialist Cities**

**by  
ENYEDI, György**

**Series editor**

**HRUBI, László**

**Pécs  
1998**

Publishing of this paper is supported by  
*Strategic Task Force for European Integration*

ISSN 0238–2008

© 1998 by Centre for Regional Studies of the Hungarian Academy of Sciences

Technical editor: Hrubi, László

Typeset by Centre for Regional Studies of HAS

Printed in Hungary by Sümegi Nyomdaipari, Kereskedelmi és Szolgáltató Kft., Pécs

## **CONTENTS**

Introduction /5

Characteristics of Urbanisation in  
the State Socialist System /8

Urban Aspects of the Transition /17

New Integration of the Settlement System,  
Growing Social Discrepancies /17

Transformation of the Urban Economy /20

Establishment of Local Governments /25

Evolution of the Real Estate Market /30

Transformation of Urban Society /33

Transformation of the Built Environment /36

International Relations and Participation in the  
International Competition of Cities /37

Conclusion /39

Notes /43

References /44



## **Introduction**

Cities have traditionally been the agents and co-ordinators, as well as the subjects of the societal changes that have effected their transformation. An analysis of urban transformation may thus contribute to a more fundamental understanding of societal changes. However, few of the countless studies on the postcommunist transition discuss the development of cities. Although there has been considerable attention given to selected topics – e.g. local government, privatisation of housing, urban development in Budapest, Prague and Warsaw –, comprehensive and authoritative studies are lacking. The present work aims to provide precisely such a comprehensive description of urban transition.

In what follows, an attempt will be made to supply answers to two principal questions:

- 1) What have been the main characteristics of the transition?
- 2) What position does the Central European urban network occupy in the European urban network as a whole?

It is necessary to explain a few underlying assumptions before going on to tackle the above questions.

- 1) What will be referred to in the following as postcommunist Central Europe is deemed to consist the Czech Republic, Poland, Hungary, Slovakia, and Slovenia. This is admittedly a rather limited definition, but is not intended to have any political implications. It is simply that comparable findings of research programmes are only available from these countries.
- 2) It can be argued that transition in Central and Eastern Europe constitutes only a part of a sweeping social and economic change throughout the world. Postcommunist transition may have a significant number of unique characteristics, but it cannot be said to be the only transition currently taking place; nor can it be understood without reference to others. Postcommunist changes are often compared to Western European conditions described as if they were static and fixed. This approach ignores, however, the simple fact that everything is ‘in flux’ in Western Europe as well.

'Transition' can be defined as a particularly significant stage of societal development in which more and more external and/or internal difficulties hinder the reproduction of the social and economic environment that forms the basis of society. New economic and social conditions emerge to become generally dominant in due course. Whether rapidly or slowly, violently or peacefully, these new conditions determine how the new system of society will look.

These periods of transition, by no means brief, represent great epochs of human history. Godelier holds the view that today's global transition signifies the last phase in the universalisation of capitalism. The economic system engendered by the capitalist mode of production is now becoming dominant over all non-capitalist ways of organising production and exchanging goods (*Godelier, 1987*). In the second half of the last century, the ascendancy of the capitalist mode of production was limited to the North Atlantic region. This region, being the first to undergo this transformation, also became the pivot of the world economy. Transformation (i.e. the transition from feudalism to capitalism) first began to spread from the centre to the periphery through existing trade relations; the periphery including Mediterranean Europe as well as Central Europe. At the same time, due to its colonisation or at least complete economic subjugation by the centre, social and economic conditions on the second periphery have scarcely been affected until the recent past. As a result of abundant state support and American influence, the 1970s saw, however, the growing dominance of the capitalist system of production also on the periphery of the developing world.

The advance of capitalism on the periphery has also changed the status of the centre. It has lost many of its former advantages in production, since even sectors requiring considerable expertise have been moved to the periphery where qualified labour is cheaper, more willing to co-operate with employers and does not demand state welfare. Europe's relative decline has been especially conspicuous (the giant domestic market of North America mitigates the negative impact of falling competitiveness). The slowing down of economic growth has been dramatic and high unemployment rates have become permanent.

Systemic transformation in Central Europe has become a part of this global transition, but in a peculiar way. A few decades back, the semi-peripheries of Central and Eastern Europe chose to run against the current, rejecting the course of development dictated by the centre. Now these regions are voluntarily giving up their opposition. At the same time, the old centre they would like to join seems itself to be disintegrating. One is obliged to confess, however, that nobody knows exactly where these countries are heading and what exactly is happening to them. Social sciences have yet to come up with comprehensive explanations.

It can be concluded, therefore, that a combination of various kinds of transformation is responsible for the unique features of transition in Central and Eastern Europe. Obviously, one of these transformations has been brought about by the dissolution of state-planned economies and the one-party system and the subsequent emergence of the market economy and political democracy. The second type of transformation is induced by the transition from the industrial city to a service-providing and information-concentrating city. Thirdly, one also has to consider the impact of global transformation, for it is clear that the development of the postsocialist urban network is not only influenced by European trends but also by processes of an increasingly integrated world economy. It seems that these global processes are leading to a new phase of urban growth. This phase is marked by the fact that after two decades of de-urbanisation, economic growth, and especially the control of the economy and outstanding achievements in the fields of culture and science, once again become increasingly associated with large cities. Given the proliferation of novel features, it is difficult to assess which developments will be lasting and which not. Although urban development has always been informed by a degree of continuity, it is difficult to say to what extent this will be the case in the future.

Western Europe has been serving as Central Europe's model for more than a thousand years. It has always been the pioneer, a self-renewing source of new ideas and institutions. On the other hand, Central Europe is an independent region in a distinctively cultural, as well as historical, sense. At times it may have become closer to Western Europe, at other times it drifted further away, but the two regions have never become one. What is at

stake now is whether Central Europe will be able to accomplish a union that has eluded it in the past in a new, integrating Europe. Some argue that it stands a very good chance today, even if integration cannot be realised at a stroke. Others are more pessimistic and in view of the rapid growth of urban poverty even fear the possibility of decline to third world status. In my opinion, a Western European type of development cannot be ‘decreed’. I share Stark’s scepticism with regard to the feasibility, of artificially designed forms of capitalism (*Stark, 1992*). On the other hand I feel that the possibility of being relegated to the third world is exaggerated. In the state-planned economy as well as after 1989, the course of 20th-century urbanisation in this region has run parallel to urban development elsewhere on the European periphery. It is a reasonable assumption that the Central European region will form a specific subsystem of the European urban network in the foreseeable future. Even if economic disadvantages are reduced in this region, societal mechanisms, as well as individual values, are not likely to become identical with those in Western Europe. The same is true of the Mediterranean urban network that has now joined the European Union. This assumption also implies that I judge the Central European urban network to be capable of integrating into the European urban system. It should not constitute a disadvantage that a degree of difference is preserved. On the contrary, this may even prove to be a cultural value; why should all countries be obliged to follow the British and American model of development?

In the first part of this study, I will briefly summarise the characteristics of the urban system in state-planned economy. This will help us to clarify and understand the main consequences of the transition, and make it easier to assess the chances of European integration. In the main part (the second section of the study) I will analyse key factors of the transition process. Finally I will weigh the prospects of a new united European urban system in the third, concluding part.

### **Characteristics of Urbanisation in the State Socialist System**

Experts differ considerably on the nature of urbanisation in the state-planned economy. Some define urbanisation in the state-planned economy

as distinctly different from capitalist urbanisation. Despite certain formal similarities, they view the former as an independent model of urbanisation (*Szelényi, 1983*). I would be more inclined to agree with those who tend to describe industrial and postindustrial cities in terms of the same spatial structure, significant regional differences notwithstanding (*Enyedi, 1992*). Most of this is already history and there seems to be little point in stirring up old controversies once again. Nevertheless, I would like to summarise my view of the characteristics of urbanisation in the state socialist system (*Enyedi, 1996*). This will enable a better estimation of how much the initial situation of 1989 in state-planned economies really differed from that of other peripheral market economies in Europe at the time. It will also make it possible to evaluate how much closer the Central European urban system is to that of Western Europe as a result of the changes after 1989.

In my opinion, 45 years of state socialism only partly account for the peculiarities of Central European urbanisation. It was also very significant that urbanisation was considerably delayed in Central Europe (by comparison with Western Europe). This *delay* is responsible, for instance, for the fact that the urban network is much more loosely-knit than in Western Europe. In Central Europe large cities are often surrounded by underdeveloped areas with a low population density. A part of the urban network is constituted by centres that resemble enclaves that are only connected with one another by traffic routes (*Braun, 1994*). The weakness of the urban middle classes in this region is another consequence of delayed urbanisation and some cities have even preserved remnants of the feudal orders well into the 20th century. Feudalism in Western Europe started to weaken as early as the 13th century, giving rise to a significant wave of mediaeval urbanisation. Central Europe only experienced the same trends some five hundred years later. Urbanisation in Central Europe can only partly be attributed to organic development. Rather it was to a great extent generated by state intervention and modernisation initiated ‘from above’. In this respect, it resembled the Russian rather than the western type of urban development.

The transition from a rural society to an urban society has also been delayed. The industrial revolution really got under way in the 1870s, but never

completely came to fruition, and was finally halted after the First World War. The majority of the population still lived in the countryside in most of the Central European region in the 1950s. The ratio of rural population in Hungary was 60%, in Poland 65% and the same in Slovakia. By comparison with Western Europe, the growth of urban population has been much quicker since the 1950s. The urban network has significantly expanded as well. The number of cities with a population of more than 50,000 has tripled in these countries. By contrast, the rate of growth was only 50% in Czechoslovakia, which figure is identical with that in Austria and Germany. This indicates that the urban network of Czechoslovakia differs from that of other post-communist countries in a number of ways. The density of Czechoslovakia's small town network already resembled that of neighbouring German areas at the beginning of the communist regime, whereas the growth of the small town network in the eastern part of Central Europe only started to gather momentum in the 1970s (*Enyedi, 1992*). Despite the fact that the development of the Czech urban network was also slower, this delay did not cause structural distortions. The development of the middle classes, the evolution of an industrial society and the functioning of the urban network have all been closer to that of the Austro-German part of Central Europe. By contrast, delayed development in the eastern part of Central Europe has resulted in the fact that industrialisation and transition to an urban society have only taken place in the state-planned economy and thus displayed typically eastern characteristics. In other words, the communist regime has interrupted a vigorous urban development in Czechoslovakia (coupled with the deportation of 3.5 million Czechoslovakian citizens of German origin in 1945–1946, the majority of whom were town-dwellers), while in other parts of the region the first stage of modern urbanisation has only been completed in the context of a state-planned economy. It is yet to be seen whether this discrepancy will also influence the manner and pace of the integration of national urban networks. Some of the initial advantages of the Czech urban network may be offset by a much more dynamic growth of the middle classes in Poland and Hungary after 1968.

It must be noted that in spite of this delay, spatial forms of urban development have in the main followed the Western European model. In no way

can they be compared to those in developing countries. Such ‘western’ features include the ageing of urban population, the slowing down of the growth of metropolitan population (or in Budapest’s case, even the beginning of its decrease), the disappearance of families in which more than one generation lived together, the depopulation of the inner cities and the social erosion of central residential districts. I would in fact argue that the Central European urban network very strongly resembled that of the western part of Central Europe in 1989.<sup>1</sup>

These similarities are explained by the following factors:

- 1) They reflect general laws governing the spatial development of urbanisation after the industrial revolution. Industrialisation has necessarily led to the same spatial consequences everywhere, such as migration from villages to cities, urban concentration of the population, suburbanisation, extension of the urban network, integration of villages into urban agglomerations.
- 2) Following the example of the Soviet Union, state-planned urban development was combined with ideological aims at the beginning of the communist period. It has sought to create the ideal communist city in an egalitarian and communitarian fashion. It quickly became evident, however, that planning was not omnipotent. Central authorities may be able to modify some of the spontaneous tendencies of urbanisation, but they cannot realise an imagined urban model in an artificial way. Consequently, either the objectives of planning were pragmatically modified to accommodate spontaneous processes, or the slogan ‘let us catch up with the capitalist West’ made the application of western notion of urban planning possible, at least in Hungary and Poland. Whatever the cause, a similar course of urban development has produced similar problems to solve.
- 3) Individuals can participate in processes of urbanisation even in a dictatorial political system. When moving house or building their own one, when deciding whether to stay or migrate, when choosing between educational institutions for their children, they influence the development of their respective settlements. Since the value of urban spaces is

deeply rooted in common European cultural traditions, it has not significantly changed during the communist regime. The population has rejected egalitarian ideology, preferring to live in better homes located in areas of higher social prestige. Society established an unofficial and highly effective mechanism, a kind of ‘second urbanisation’ in order to affirm its traditional values.

Compared to its level of development in the interwar period, the Central European urban system more closely approximated to that of Western Europe in a number of significant ways by the end of the communist regime. The discrepancy between preindustrial cities of an overwhelmingly rural settlement structure and industrial and service-providing cities of a predominantly urbanised settlement structure had been significantly reduced. Nevertheless, in view of the specific characteristics of state-planned economies, other differences can be said to have increased.

The impact of the *system of state socialism* on urbanisation can be summarised as follows:

- 1) In spite of its loud proclamation of collectivist slogans, the totalitarian system actually atomised and caused the disintegration of urban societies. Civil society was non-existent, collective leisure activities could only be pursued in local groups of cultural, sports and other associations organised and controlled by the party-state. The principal scene of socialisation was the place of work where the control and ‘education’ of citizens was easier than at their place of residence. The very techniques of grassroots organisation of society had been forgotten. The social activities of the churches were strongly restrained. A thoroughly individualised society, distrustful even towards its own democratically-elected leaders and hardly capable of making even minor compromises, is now trying to reorganise itself in postcommunist cities. Urban planning, which previously ignored the interests of citizens, has found itself in a very difficult position.
- 2) The development of the inner structure of society also took a peculiar course. With the introduction of the economic system of state ownership, almost everybody became a state employee. The economic sys-

tem based on private property was abolished or at least very much limited. Society became increasingly proletarianised, and few members of the old middle class preserved their status as freelancers or prominent intellectuals. The social elite was completely reshuffled, and the economic and political elite of the times before the communist regime was replaced by a new elite. Especially in the initial period, this new elite was quite uneducated, but had a strong political commitment. It was recruited from party officials, managers of large state-owned companies and top functionaries of the state administration. The official ideology called for the unification of society, while in fact economy and society became more and more heterogeneous and the complexity of the social structure also increased significantly. The distance between the haves and have-nots actually increased despite the fact that society continued to display some egalitarian features. Poverty was mitigated by full employment, the homeless were accommodated in workers' hostels, and everybody could afford basic foodstuffs and other essential needs.

From the 1970s onwards, the second urban economy increasingly gained ground in Poland and Hungary. This not only provided a new source of income, but also strengthened the middle classes, holding out the possibility of exercising autonomous economic decisions and making capital accumulation possible. It was by and large tolerated that a parallel society of an increasingly middle-class character began to be established 'behind the scenes' of the official society.

- 3) Cities preserved their overwhelmingly industrial character. The expansion of the urban network was to a large extent caused by the location of industry in the countryside. It was not the case that dynamic commercial cities attracted industry (there were few of these), but industry turned villages into cities. The transition from industrial city to a service-providing city progressed slowly, although this trend was still more manifest here than in Eastern Europe. This can partly be attributed to a large industrial demand for labour,<sup>2</sup> and partly to the fact that services were not profit-oriented and remained generally backward.

The state-planned economy could not move beyond the industrial city. In other words, it preserved a Fordist organisation of industry, even if this was accompanied by different social mechanisms from those in ‘Fordist’ Western Europe.

- 4) Cities had access to development funds through the redistribution of the central budget. Thus development did not depend on internal resources, nor did the volume of available funds depend on the performance of the local economy, but merely on the ability of a particular urban settlement to represent its interests. The chief objective of urban policies was to influence redistributing centres. This has had a number of consequences. Firstly, capitals could lobby for their interests particularly well, given that in the centralised system of state socialism all strategic decisions, including economic decisions, were made in institutions of the party and state administration located in the capital. Nevertheless, the excessive growth of capitals was hindered by the fact that other cities, regional and large industrial centres in particular, also had a considerable lobbying potential. Consequently, the development of centres in the countryside was also relatively well-balanced. The losers in this race were clearly the villages that had very limited access to funds for settlement development. As a result, the urban/rural dichotomy, characteristic of early industrialisation, was preserved under the command economy. This discrepancy was only made even worse by the fact that infrastructural developments were consistently ignored.<sup>3</sup> Infrastructural investments in transport, energy and housing were carried out only as long as they were vital to the functioning of industry. Regional infrastructural developments have also neglected rural areas. The rural population, amounting to 35–40% of the entire population, was thus placed at a serious disadvantage. These disadvantages have only increased in the competitive environment of market economies.
- 5) State-planned economies operated as closed national economies, and economic, cultural and other relations over national boundaries were regulated by international agreements. Cities, therefore, were also her-

metically sealed in their respective national spaces and their sphere of influence was never able to transcend the country's borders. They could only absorb immigrants from their respective areas and were organised into a planned hierarchy within their countries. The cities of the Central European region were also non-participants in the competition between European cities which led elsewhere to the formation of different specialised urban groups at various levels.

- 6) Urban development in the state-planned economy also influenced the built environment and the urban land use in specific ways. One sees here another instance of the preservation of early 20th-century forms of spatial organisation. A good example is the peculiar course of suburbanisation that conserved the semi-rural character of communes in the urban agglomeration and kept the number of daily commuters at high levels. The middle classes had not yet begun to move to the suburbs, or at least this is how it looked on the surface. All large cities sought to devour neighbouring settlements by administrative means, because a large population brought benefits in the redistribution of resources. One result of this, however, was that the inner suburban ring was moved within city boundaries. Other anachronistic features of spatial organisation can be seen in the continuing prestige of downtown residential areas and the mixing of a relatively small central business district with retailing areas. Similarly, residential quarters merged with industrial areas and proletarian districts continued to exist. Time seemed to have stood still here. Modernisation in state socialism was so obsessively focused on industrialisation that it was in effect imitating a past epoch, namely that of the industrial revolution. Nevertheless, surviving forms of urbanisation disguised a much altered content. Workers did not move to the suburbs because they could not afford rents in downtown areas, but because they were excluded from the state redistribution of housing, in certain cases even having to suffer administrative restrictions. The central business area remained so small because the state-planned economy simply did not need financial institutions and other commercial services. The decline of down-

town residential areas is another phenomenon that on the surface may appear to be analogous to corresponding developments in Western Europe. Yet these inner residential areas did not start to decline because of the exit of the middle classes and real estate speculation, as in Western Europe. Slums grew up rather because of physical decay and failure to maintain state-owned residential buildings, as well as through the allocation of low-quality flats to poor families with many children.

State socialism has also left an indelible mark on the urban structure illustrated, for example, by the fact that a considerable part of the population still lives in large housing estates. Such estates were also built in Western Europe, but they were only intended to accommodate those moving to the city and low-income groups of the population. Moreover they went out of fashion in the West more than twenty years ago. By contrast, the construction of housing estates has been the main form of housing until the recent past in Central Europe.

Flats were allocated by local councils, partly according to needs, partly according to ‘merit’. Since these flats were not only acquired by the poor, the allocation of homes did not generate segregation. From the 1970s on, however, a limited form of real estate market began to develop in Poland and Hungary. Those in higher income brackets, especially members of the intelligentsia, began to buy or build homes in residential areas with higher social prestige. This development was accompanied by the decline of housing estates. It is interesting to note that, as already mentioned, residential segregation did not completely disappear in egalitarian societies. Its mechanism simply became more complicated, because market conditions were only simulated, although the address of a residence still more or less implied a corresponding social status.

This was the general state of the Central European urban network at the beginning of the transition: in some ways similar to the Western European urban system, in some ways different. As I have already remarked, in my perception the similarities were more fundamental and generally speaking, the cities of the Central European region form a part of the European urban sys-

tem. Changes after 1989 have made the similarities even more conspicuous. I would define the following aspects to be the most important elements of the transformation process:

- market-oriented integration of the settlement system, leading to an increase in social discrepancies;
- transformation of the urban economy;
- establishment of local governments;
- evolution of the real estate market;
- transformation of urban society;
- transformation of the built environment;
- establishment of international relations, participation in the international competition of cities.

These changes will be briefly discussed in the following section.

### **Urban Aspects of the Transition**

#### **New Integration of the Settlement System, Growing Social Discrepancies**

The settlement structure formed an integral part of the centralised system of state administration under state socialism. Cities were organised in a hierarchical structure according to the level of administrative institutions located in them. Their place in the hierarchy was assigned by central planning, having regard to a number of priorities. The highest priority in the period of extensive industrialisation was the presence of industry, in particular heavy industry. Later, the service-providing functions of a city with respect to settlements in its attraction zone were also considered. The city's share of the central budget depended on its position in the hierarchy. The availability of resources for development was determined neither by a city's actual circumstances, nor by successful or unsuccessful management of its affairs, but merely by the city's effective bargaining potential in the process of redistribution at its own level of the hierarchy.

Three distinctly different levels of relationships between settlements emerged. The first was constituted by economic relations. Companies in a given settlement, whether co-operatives or state-owned, made business contacts with other industrial companies or (also state-owned) domestic and international trading companies. These connections, however, were not market-oriented—not even in the Hungarian economy, which was closest to a market economy. Links between companies were either determined by central planning or by the economic organisations of the state, which enjoyed a monopolistic position in the economy. At the same time, economic connections were regulated by one of the administrative centres, and neither local authorities nor the companies in any city could influence the direction or intensity of these connections.

The other level of relationships between settlements was represented by connections in public services. The latter term stood for a fairly wide range of services, including retail trade. Local authorities were not only tasked with the supervision of education and health services, but also had to attend to such fundamental matters as ensuring that there was enough bread in the shops before official holidays. The scope of public services was determined centrally. The centre regulated which hospital, secondary school and bank could be used by any individual inhabitant of a given settlement. A city's sphere of influence, therefore, did not evolve on the basis of spontaneous connections and boundaries were fixed in a bureaucratic fashion.

The third type of relationships between settlements was based on the freely exercised preferences of the population. These could only manifest themselves in retail trade, in the possibilities for shopping at different markets and in various leisure activities. Hungarian regional geography began investigating certain preferences of the population with regard to markets and shopping precisely because these implied the natural spheres of influence of various settlements and settlement hierarchies in the perception of the population.<sup>4</sup>

The control of relationships between settlements diminished inequalities between the living standards of various settlements, or at least did so at any

given level of settlement hierarchy. Traditional social differences between settlements were disguised by state paternalism.

The transition led to the dissolution of the former network of connections organised by the state which has partly been replaced by market-oriented relationships. The market, however, differentiates by its very nature, and thus latent discrepancies have been dramatically exposed. Since this has been coupled with a general economic recession, backwardness has meant not only a reduced availability of services, but also unemployment and indeed basic problems of subsistence for certain settlements. In the wake of the transition, settlements had to adapt alone to radical changes, the balancing and protecting role of the state having been radically curtailed. Jealous of their newly discovered independence, local governments, which replaced former councils, have been reluctant to form microregional associations with other settlements, even when co-operation would have been the most expedient way of managing the institutions providing public services (I will come back to the functioning of local governments later.)

Market-oriented integration of settlements has been driven forward by the privatisation of state property, a quickly expanding private sector and a partial privatisation of public services. The possibility of turning local characteristics and advantages to account has released enormous energies and led to a spectacular development of certain settlements. The lack of competitiveness, however, has been exposed in an equally spectacular way. Differences between settlements depend first of all on the potential of the local population to adapt to new circumstances, as well as on the geographical location of the settlement (and therefore such things as its communication links, and vicinity to dynamic centres). This is also the reason why geographical inequalities are much greater than before. They are not only palpable at a regional level, since innovative centres may emerge in any part of the settlement system, and even in underdeveloped areas. These centres are connected to other, often remote dynamic centres through the integrative forces of the market, and this may weaken traditional ties between 'the city and the surrounding country', at least as far as the market sector is concerned.

An in-depth understanding of the new forces shaping the settlement system is not yet within our reach. The old network of connections has disintegrated too rapidly, and the new is taking a long time to develop. Connective links, therefore, are not always effective, some of the relations between settlements being either inadequately regulated or functioning in a deficient way.

### **Transformation of the Urban Economy**

The prosperity of a city depends first and foremost on the local economy. Business decisions lay the groundwork for growing employment and determine the nature and intensity of external economic relations. Local taxes are also mostly contributed by the business sector. An awareness of this, however, is usually slow to strike root. Local governments are more focused on gaining relatively moderate amounts of governmental subsidies than on trying to involve local companies in settlement development. Needless to say, business decisions are motivated by profit and not by settlement development. Companies have to be made directly interested in the development of the city.

The emergence of local economies signifies an enormous change when compared to the economy of state ownership. Production, development and economic relations of an industrial or services company located in a given city used to be decided by a remote company or by administrative centres in the state-planned economy.<sup>5</sup> Only technological decisions were made locally. By the same token, there were no business relations between branch plants of state-owned companies in the same settlement, especially if they belonged to different company headquarters or ministries. The void left by the lack of official relations was filled by an elaborate web of informal personal connections, so that the company management was often involved in local government. Provided that there was a good personal relationship between the management and the local political leadership, companies participated in the financing of public services or even provided these themselves in return for favours. In small towns and in particular ‘new towns’, this ‘industrial paternalism’ played an important part in the provision of public services.

Industry had a vital function in the economic structure of both small and medium-sized towns and large cities. In the absence of market conditions, business services were also underdeveloped in large cities, although these showed a concentration of company headquarters, as well as centres of education, research and cultural life. Industry progressively moved out of large cities from the 1970s, but this tendency only resembled the deindustrialisation of large cities in Western Europe, which exhibited similar statistics of relocations. Large state-owned industry, constantly trying to attract more labour and not being faced with budgetary or market constraints, was simply unable to find an adequate work force any more in large cities. This is why companies started to relocate branch plants in rural areas that had an excess supply of labour. This strategy was also supported by regional policy aiming at the reduction of regional inequalities. However, such resettlements were not motivated by the pursuit of higher efficiency.

Local economies have emerged gradually, depending on what stage the privatisation of the economy has reached, or how far the state-owned economy has been transformed and integrated into the market economy in any given country. There are two alternative forms of privatisation: either state property is transferred into private ownership or new private enterprises are launched. These alternatives have been put into practice in different ways in each of the five Central European countries (*Frydman-Rapaczynski, 1994*). The state-owned economy has remained strongest in Slovakia and Slovenia. Figures suggest that private ownership is the highest in the Czech Republic, but this is a peculiar form of private ownership that actually disguises the conservation of an economic structure dominated by state ownership.<sup>6</sup> The participation of foreign capital and transnational companies in privatisation has been the most active in Hungary. Significant amounts of domestic capital were accumulated during the fifteen years before the transition in Poland, Hungary and Slovenia.

At present, urban economy in the region is constituted by the following elements:

- A fully or partly state-owned economy. Despite its still existing access to central subsidies it is not able to adapt to market competition other

than by reducing the number of employees. Cities with large state-owned companies, which enjoyed several privileges in the state-planned economy, have experienced serious unemployment problems.

Ownership rights of large state-owned companies are exercised by administrative organisations of the state or state-owned shareholding companies. Although the state-owned economy is still controlled centrally in this way, it has been integrated into the local economy. State-owned companies have lost a considerable share of their markets after the collapse of the Comecon. A part of the companies still in majority state ownership belong to the armaments industry. The future of these companies is still uncertain. State-owned companies have an important share in foreign markets and thus strengthen international relationships between settlements. At the same time, they seldom establish subcontracting connections to local private economy.

- A local, private economy. This is chiefly made up of individual entrepreneurs and small enterprises with a handful of employees. It plays a very important role in the development of local economies. The significance of this role can be attributed to the following factors:
  - a) the local private economy has a direct and continuous interest in settlement development;
  - b) co-operational, subcontracting relations formed within the local private economy stimulate the entire economy and expand local markets;
  - c) a considerable part of the local private economy operates in the services sector. It is more difficult for these enterprises to move to another location than it is for manufacturing activities;
  - d) the majority of the owners of local private economy are local residents whose personal strategies are also accommodated to local circumstances. These entrepreneurs are therefore personally interested in the development of their settlement.
- A local economy in majority or exclusive foreign ownership. Several forms of this exist, each of which has a different impact on relationships between settlements. It is worth noting, however, that a signifi-

cant amount of foreign direct investment (FDI) is only present in the Hungarian settlement network and has had a general impact only there. In any case, FDI has settled very selectively in all Central European countries. The number of settlements attracting significant amounts of FDI has been relatively small.

The investments of transnational companies have had the greatest individual impact. Settlements enjoying such investments have been rapidly connected to the world economy. Rapid technological developments were made possible through the large amounts of capital involved. These investments already contribute significantly to Czech exports and even more to Hungarian foreign trade. Another advantage of non-European investments is that these prefer to establish subcontracting networks locally, in view of the greater distance involved and the possibility of easier access to markets of the European Union. By contrast, Western European investors have been less willing to spend time on local subcontractors unaccustomed to punctual delivery and steady quality. The successful operation of a transnational investment may be the best reference for a city and could become an important element in its marketing policy. The settling of a transnational company is also an incentive to improve the general environment in the settlement and generates demand for a highly qualified work force.

The presence of transnational companies is, however, not without dangers. For example, they may use their massive concentration of capital to drive domestic companies out of the market. Products are usually developed in research laboratories located in the most advanced countries, and therefore local industrial research institutes are not required. If local advantages become less attractive, which usually means labour becoming more expensive, they can relocate production to another country. Nevertheless, and in spite of these risks, their presence is one of the most important factors in the modernisation of the local economy.

Small and medium-sized FDI is also present. Smaller state-owned companies, which have gone bankrupt or lost much of their market value, have often been bought by medium-sized enterprises with moderate amounts of capital. It is yet to be seen whether these companies will be able to recover

and start to grow again. This will also depend on the expansion of national markets. A peculiar feature of Central European economies is the marked presence of small foreign family enterprises. Some of these are owned by returning immigrants, some by Austrian and German investors living in border regions. Investments by the latter usually remain close to the western borders of Central European countries. Their personal know-how is a very valuable source of applicable economic information.

The transition to a local economy – characterised by mixed ownership, manifold spatial relations and governed largely through autonomous local decisions – is also accompanied by a structural transformation of the urban economy. The first phase of this structural transformation has proved to be painful since it entails a sharp fall in industrial employment. The periphery of the capitalist West also underwent this transformation a decade earlier. The size of the industrial work force decreased by 20% in Ireland between 1979 and 1987 and by 28% between 1975 and 1985 in Spain. This can mostly be attributed to the decline of traditional and ineffective economic sectors. By contrast, the 1980s were marked by another upsurge of industrialisation, due for the most part to foreign investments and the relocation of industry from developed areas. The number of industrial employees increased by 20% between 1985 and 1990 in Spain. Nevertheless, this work force had a different composition and was employed in other sectors than those hit by the former recession. Foreign investments have been concentrated in large cities: 57% of FDI has gone to Barcelona and Madrid in Spain, 82% has opted for Lisbon in Portugal. Given its greater demand for infrastructure and qualified labour, new industrialisation has been marked by a striking geographical polarisation.

Similar tendencies can be expected in Central Europe. The grave industrial recession after 1989 lasted only two or three years and the ensuing period has been characterised by renewed industrial growth. Economic growth, however, has not been accompanied by improving employment figures, because competition calls for increased efficiency. The geographical concentration of industry is not as strong as on the periphery of Western Europe. Central Europe has traditionally had stronger industrial regions than

Mediterranean Europe or Ireland. It is still unclear which sectors will prove to be the most dynamic areas of industry and this will also determine the new spatial location of industry. One cannot yet identify the most competitive industrial sectors and respective positions in the spectrum of European competition are also subject to periodic change. All industrial sectors may offer some competitive products and technologies. High-tech industries have formerly been helped by their advantageous position within Comecon (as well as the western COCOM list). At present, however, high-tech sectors can only function as subcontractors of transnational companies. Owing to a highly-qualified and cheap work force, high-standard processing sectors stand a good chance of development, including the relocation of investment in these sectors from EU countries. This is well demonstrated by the rapid expansion of the car industry that has already positively affected several medium-sized subcontracting companies. There are examples of the commissioned manufacturing of cheap mass-products which may yield additional tax revenues and higher income, but has a negative effect on technological standards in industry. In the final analysis, I would forecast a partial reindustrialisation of urban economies. Traditional industrial centres can hardly avoid their decline, but structural transformation of industry in cities with processing industries may be successful. Central Europe could be the beneficiary of industry withdrawing from the most advanced regions of the continent.

An important factor of the transformation of economic structure is constituted by the expansion of the services sector. The contribution of this long-neglected sector to growing employment could be crucial. Business services are the most underdeveloped area, and only gradual progress can be expected, parallel with the consolidation of the market economy. One may assume that high-level business services will be strongly concentrated in large cities. The development of international services with a macroregional sphere of influence can only be expected in one or two metropolises that are also competitive by European standards.

The emergence of local economies means that the development of cities is primarily dependent on their economic performance. The first priority of urban policies should be to assist in improving this performance.

### **Establishment of Local Governments**

The creation of local governments in place of the council system signifies a landmark in urban development. Local governments are the most important elements in the institutional network of cities. They are the main providers of public services and should also represent the reactions of the local population to governmental policies. A multiparty parliament is a necessary but not sufficient condition of democracy, the basic units of democracy being the workshops of civil organisations and local governments. Among the postcommunist countries, only the Czech, Polish and Hungarian laws on local governments have guaranteed the decentralisation of power and the subsidiarity of government.

The Soviet Union imposed the council-system on its satellite states in the latter half of the 1940s. The essential features of this council-system were the following:

- 1) local councils of cities were to represent the will of central authorities and were not supposed to articulate local interests;
- 2) the election of members of local councils was a purely formal procedure within the framework of the one-party system;
- 3) councils at various regional levels were organised into a vertical hierarchy;
- 4) councils had virtually no financial resources of their own, their functioning and development being financed through central budget redistribution.

The Hungarian and Polish council-systems had been significantly modified by the middle of the 1980s, while the Yugoslavian regional administration differed greatly from that of other communist countries from the very outset. The legacy of the council-system makes the functioning of local governments more difficult. The economic weakness of urban authorities entails

a continual dependence on the central budget, yet the central government has given very limited support to decentralisation. Having been freed from the yoke of the former hierarchical system, local governments themselves show little willingness to co-operate with each other. Expertise required for autonomous government is also often missing. Nevertheless, it is highly significant that the Central European system of local governments generally meets the corresponding European standards.

Several types of local government have evolved in Europe (*Bennett, 1993*). The Central European system corresponds most of all to the French model in which locally elected bodies are subject to strong central control (sometimes even the mayor is nominated by the central government). New local governments have also adopted the principle of the separation of powers, consisting of a directly elected legislative (local governmental bodies) and an executive (usually a directly elected mayor). The council-system is easier left behind when the local governmental system preserves a degree of strong central control, although it should also be noted that centralising traditions date back to the times of the Austro-Hungarian Monarchy.<sup>7</sup> With the exception of so-called free royal towns, settlements enjoyed little autonomy in the large and multinational Monarchy, while regional (i.e. provincial and county) governments were relatively powerful, acting as regional branches and remote representatives of the central power. The emergence of new nation states in the place of the Monarchy after the First World War was not the result of a spontaneous development. These states represented the geo-strategic interests of the victorious Western Powers with their arbitrarily drawn borders. The internal cohesion of the new states was weak, and the relative status of cities and administrative regional units controlling individual settlements underwent change. All this has justified the survival of centralisation in successor states of the Monarchy. This is why it is difficult to communicate the principle of autonomous local government to the population and why authorities may sometimes falter in putting this principle into practice in the postcommunist countries of Central Europe.

An important consequence of the creation of local governments is the strengthening of rural settlements. Among other indicators, this is demon-

strated by the dissolution of the administrative mergers of the 1960s and 1970s. These mergers have generally been attributed to the authoritarianism of a centralising communist power (although the modernisation of administration has led to administrative mergers in a number of democratic European countries as well). This is why the new legislation on local governments has established local governments at the level of individual settlements. The number of settlements doubled in Hungary between 1989 and 1993, grew by a third in the Czech Republic and did not change in Slovakia and Poland. Settlements are already quite small in Slovakia (two thirds of all settlements in the country have a population of less than 1000 people). This disintegration has been motivated by the local governments' historically-rooted and profound distrust of regional and central governments. This, however, has proven to be a trap, for the small size of settlements has actually hindered the process of genuine decentralisation. The majority of them have lacked both the expertise and the financial resources to enable them to take up the responsibility of providing and developing public services. 'Sweet independence' impedes the development of co-operation that could offset the handicaps of small size (e.g. joint infrastructural developments, joint running of schools). To cite one example, lack of co-operation has been standing in the way of a revision of the general physical plan for the Budapest agglomeration.

The issue of control by regional governments over local governments has been debated in all of these countries. Traditionally (before 1989) settlements had perceived regional governments to be mere extensions of the central power and it is therefore not surprising that no regional local governments were established in 1990. However, since public services at the regional level are obviously indispensable, ranging from courts of second instance to specialised educational institutions, irrational and emotionally-motivated decentralisation has once again defeated its purpose. Centralisation has in fact intensified, since regional public services had to be provided by the central government. There are presently discussions about elected regional governments in the Czech Republic and Slovakia. Such governments were to be introduced in Poland in 1993, but the general elections prevented this reform.

Only in Hungary has an amendment to the law on local governments in 1994 created some form of regional and decentralised government. Nevertheless, there are still ongoing debates about these issues in Hungary as well, and the present form of administration will hardly prove to be an ultimate solution.

A basic contradiction concerning the existence of local governments in Central Europe lies in the fact that local governments have been assigned a great number of duties, but have few resources at their own disposal. Local taxes only play a significant role in Poland (a quarter of the local budget); everywhere else they remain below 10% (5% in Hungary). The property of local governments – real estate, bonds, enterprises – could also be used as a source of income, but these often yield more problems than profit given that buildings have to be renovated, landed property cleared of environmental pollution, and so on. Consequently, dependence on the central budget remains strong. The survival of old structures conserves old attitudes, and enjoying independence does not mean that local governments will not try to stay on good terms with governmental organisations allocating subsidies. It will be necessary to give unwavering support to market-oriented decentralisation by transferring various former public services to the market sector. This is mostly only hindered by the lack of local capital, although privatisation of water and energy utilities has occasionally provoked political resistance as well.

It should finally be noted that local governments of capitals usually enjoy a unique legal position which in some cases is even regulated through special legislation. Two specific problems present themselves with respect to the status of capitals. The first of these concerns the relationship between the capital and the local governments of individual districts. Although the local governments of the capital and the 23 districts have an equal status in Budapest, revenues from the share of personal income tax not remitted to the central budget are distributed by the capital's local government among individual districts, a practice which gives rise to countless debates. The fact that welfare housing is owned by the districts makes the elaboration of a comprehensive housing policy for the capital impossible. In Warsaw, the city is governed by the local governments of the seven districts and the capital's local government is comparably weaker than in Budapest. The other

problem is that co-operation between the local governments of the capital and its agglomeration is even more difficult than that in the case of other cities. The distinction between the capital's government and the central government often seems less clear-cut from the perspective of local governments in the agglomeration, which explains why distrust towards the capital is particularly strong. This is in fact not a complete misperception, since the economic and political weight of capitals is extraordinary; they require larger subsidies for urban development and also have easier access to central funds than other cities.

It may be concluded that the establishment of local governments has been crucially important for the democratic functioning of society as well as for the mobilisation of local resources and the development of programmes meeting local needs. Paradoxically, it is precisely the excessive striving for independence, the resulting fragmentation and weakness of local governments, and misgivings about co-operation that hinder a real decentralisation of tasks. On the other hand, it will also take time before local governments will be strong enough to check the traditional centralising ambitions of the central government.

### **Evolution of the Real Estate Market**

Housing policy has a great impact on urban development. Housing is controlled by a mixture of market processes and state regulations everywhere in Europe. Housing in the state-planned economy was completely dominated by state regulations, the market only having a marginal function. The building of new homes formed a part of central planning and the distribution of state-owned flats among applicants was also a state task (carried out by local councils or state companies). At what rate the population of cities grew depended on the scope of state housing programmes. Many homes, however, were still built privately, in particular by the rural population that was practically excluded from state housing programmes; nevertheless the market remained limited and controlled. A family could only own one house or flat plus a second home in resort areas, and even the maximum size of this was fixed. Building loans were lent by state banks that favoured certain

forms of housing such as, for instance, those built by co-operatives. In Central Europe, the share of flats in public ownership amounted to only 28% of the whole, and 49% of all homes were occupied by the owner at the time of the dissolution of the state-socialist system in 1990 (the rest belonged to co-operatives and companies). There have been great differences among the various countries. In 1990, 77.5% of all homes, for example, were in private ownership in Hungary, the pioneering country of the transition to market economy.<sup>8</sup> The privatisation of homes accompanying the transition has only had a significant impact in large cities where the value of real estate transferred into private hands was considerable.

Positive evaluations of the socialist housing model have been few and far between. The contradictions underlying this model have been analysed by several authors. The public has perceived a serious shortage of flats, since tenements in public ownership were very difficult to obtain and their normative size fell short of actual demand. Hegedüs and Tosics have argued, however, that when compared to the general performance of Central European economy, housing conditions were actually not as poor as was widely believed. If one compares the level of housing in Central Europe to that in other countries with similar GDP figures (e.g. Greece, Turkey, Mexico, Chile, South Korea), one finds that indicators of housing conditions are generally favourable,<sup>9</sup> being closer to corresponding figures in Western Europe than those in countries with a comparable economic output. The purchase of an own flat was the only case where housing conditions could be shown to be the worst in Central Europe, because wages were not sufficient for the costs of buying private flats. Hegedüs and Tosics claim that the oft cited problem of housing shortage is based on an unjustified comparison of Central European housing conditions with Western European countries, which had a six times greater per capita economic potential than the former. The comparison ignores the fact that, due to unrealistically low rents there were practically no financial limits to demand in Central Europe.

Housing in state socialism was characterised by the small average size and limited selection of homes. Coupled with the non-market oriented allocation of houses, this resulted in the fact that there was hardly any correlation between the income of a household and the size or quality of their home.

Due to the small number of purchasable flats, their price was extremely high, affordable only to households in high income brackets. The number of households purchasing their own homes (i.e. the ratio of average income to the price of an average flat) was much smaller than in either developed or peripheral market economies.

The development of a real estate market first of all required the partial privatisation of state-owned flats. First, state-owned flats were transferred into the ownership of local governments. Privatisation was carried out in turn by local governments, which used a variety of alternative procedures. Privatisation had two basic forms. The property was either restored to the original owner at the time of nationalisation (restitution) or sold to the tenant living in the flat. Restitution has not been practised at all in Hungary, and only in exceptional cases in Slovakia and Poland. It has only been extensively applied in Slovenia and the Czech Republic.<sup>10</sup> Restitution has involved a relatively complicated procedure and was in any case extended only to pieces of property used as tenements at the time of nationalisation and the time of reprivatisation. Serious conflicts have been generated between original owners and tenants that eventually required the regulative and financial intervention of governments. In Hungary, 40% of all tenements were sold to the tenants, 70% in Slovenia, but everywhere else the figure remained negligible. Most flats in state ownership in 1990 were still public property at the end of 1994 in the Czech Republic and Slovakia, whereas their share decreased to 28% in Slovenia and 60% in Hungary.

The first phase of the privatisation of state-owned flats was primarily motivated by political considerations and did not form part of a comprehensive housing strategy. Hungary and Slovenia opted for predominantly market-oriented alternatives, while the Czech Republic and Slovakia strove to maintain the dominance of public ownership, with Poland seeming to have struck a middle course. This has also influenced the building of new homes. State and local governmental housing programmes have been curtailed in all of these countries, but the participation of private enterprises in the construction of new tenement buildings has only been significant in Hungary and Slovenia, and the average size of newly constructed homes (101 square

metres and 102 square metres respectively) has also been larger here than in the other three countries.

The housing sector, of course, reflects the general development of the Central European economy. Not only does it correlate with macroeconomic tendencies, it also greatly influences several other economic sectors. The social significance of housing conditions is also well known. The next crucial step would be to develop the basic institutions of the housing market, including the creation of the forms and resources of a mortgage system, welfare schemes, efficient maintenance and renovation. The main question in the ‘market-oriented’ group of countries is how the large group of private owners will act in the future (how will they finance the costs of maintenance and renovation), and to what extent and in what ways will the state (and local governments) have to resort to restrictive measures limiting the freedom of the market in order to protect social equality. The basic question in the other three countries is whether they will follow the first group and privatise state-owned tenements or keep a significant non-market-oriented housing sector. If they do, a further question is whether they will attempt to turn it into an efficient non-profit sector or preserve it as a state-controlled part of the housing system requiring large state subsidies.

### **Transformation of Urban Society**

The transition has transformed the structure, functioning and organisation of urban society and altered the status and spatial location of individual social groups in the city. The introduction of the market economy has made the distribution of goods more unequal; thus one of the characteristic aspects of the transition has been increasing social and spatial polarisation.

As already mentioned, social differences also existed in the egalitarian society of state socialism. These differences, however, were associated with social position and not with property. Nationalisation and industrialisation carried out by the communist regime have not been solely responsible for structural changes in society in the last fifty years, the events of the Second World War having also played an important role in these developments. The

majority of the large Jewish middle class fell victim to the Holocaust, and later most of the town-dweller German minority of the Czech lands was also deported. Consequently, many members of the middle class have not only lost their former status, but simply disappeared from Central European cities. This has also changed the traditionally multiethnic character of these cities. The void left was filled by migrants from the countryside who have mostly increased the numbers of the urban proletariat and have found it difficult to adjust to an urban way of life that had in any case been much unsettled by previous changes.

The present transformation of urban society is in part a direct consequence of the transition including, for example, the emergence of the new elite or the presence of a large urban lower class. The other basic tendency underlying the transformation seems to be typical of the general laws governing the transition from an industrial city to a service-providing city.

The new elite has few genuine newcomers. Entrepreneurs forming the elite of economic life, well-to-do technocrats and freelancing intellectuals had usually been members of the elite under state socialism, even if they may not have enjoyed exactly the same social status. The majority of entrepreneurs have been recruited from the ranks of the previous political elite or the intelligentsia, former dissidents and technocrats; it is exceptionally rare to find successful entrepreneurs who have risen from the working class. The political elite also numbers few new members, although one might have formerly encountered many of the familiar faces in research institutes or literary circles. The displacement of the elite is also to be attributed to a generational change, as many young people have joined the elite who were too young to be active under state socialism; this is especially true of the new professions requiring high qualifications. Despite personal connections, the political, administrative and intellectual elite and the new capitalist class are quite clearly separated from one another.

*Węclawowicz (1992)* identifies five distinct groups that make up the new capitalist class. The first of these is the communist nomenclature. Members of this group, party functionaries or former state officials of the political administration and economic leadership, have successfully converted their

personal connections and monopoly on information, which they acquired in their past positions of power, into various forms of property and wealth. The second group consists of highly-qualified ‘self-made men and women’ whose enterprises have quickly become successful. The third is a group of experts who work for the state administration, but also run their own consultancies. They can use their influence and access to important information to ensure the success of their private enterprises. Members of the fourth group have based their enterprises on intellectual innovation, as in the case of software laboratories and technological think-tanks owned by former researchers and professors at technological colleges. Entrepreneurs of the fifth group already had small enterprises in the state-planned economy and now they are successfully expanding these under the new dispensation. A part of the economic activities of the new capitalist class are illegal or semi-illegal.

The new middle classes comprise various groups that were also part of state socialist society. Most of these are made up of white-collar workers, many of whom are state employees, some having accumulated small amounts of capital. Upward mobility from the working class to the middle class is limited. Blue-collar workers generally lack the necessary capital, expertise and entrepreneurial spirit. The old comforts of state paternalism are still hoped for.

The statistical share of the urban lower class in the population is significant. It includes most members of a working class that has lost its former social status due to a dramatic fall in industrial production and industrial restructuring. The urban lower class has also absorbed a part of the middle class, such as low-paid intellectuals (e.g. primary school teachers), and elderly people whose pensions have lost their value. Further social decline downwards to the marginalised urban poor is also not unusual. This most disadvantaged segment of the population consists of those who have lost most from the transition and their appearance in large cities *en masse* has been the most shocking by-product of urban transformation. The two main groups of the urban poor are made up of so-called ”small pensioners” and elderly people living on social welfare, on the one hand, and unskilled workers on the other. Big state-owned companies employed unskilled workers in large numbers, most of whom had migrated to the cities from rural regions. Most

of them did not have a permanent residence in the city, being lodged in workers' hostels and often maintaining links to their rural background. They were the first losers of industrial restructuring and privatisation, having been laid off from economically superfluous jobs in vast numbers. Some of them have returned to the countryside, thus increasing rural unemployment, where they try at least to supply their own food self-sufficiently. Others have become homeless, together with new rural migrants and illegal foreign immigrants. Homelessness is most widespread in precisely the most dynamic cities because job opportunities are the most likely there. In contrast to the marginalised groups of Western European cities, some of the Central European homeless belong to the lower-middle class who have lost their homes for some reason, such as divorce, have been unable to find a new place to live, and have quickly become unemployed. The marginalisation of this group can hardly be reversed.

Social polarisation has also been reflected in growing spatial segregation. The seclusion of the elite is most visible in the most sought-after residential districts. There are several reasons that can make an area attractive, such as a pleasant natural environment, the vicinity of the most important centres of urban life and cultural events in renovated downtown residential districts, or simply the neighbourhood of other members of the elite. The appearance of urban poverty is less conspicuous in the cities, but members of the lower class may be found almost everywhere, with the exception of the most expensive residential quarters. They live in larger or smaller concentrations in housing estates, in dilapidated tenements of old residential districts, and in old proletarian quarters as well as inner city areas. Due to restricted mobility in recent decades, demographic separation is very strong. Pensioners are characteristically concentrated in old residential districts of the downtown.

### **Transformation of the Built Environment**

Although the built environment is relatively resistant to change and investments in the construction sector have dramatically fallen in the last seven years, developments in this area are often spectacular. This is particularly the

case in cities where the business sector and the entrepreneurial class have become much stronger.

The transformation of the built environment has been determined by three functional changes: expansion of commercial areas, transformation of industrial zones, and the altered character of housing. The image of the city has also been shaped by a new and immature aesthetics, a peculiar blend of obtrusive American shopping centres, newly rediscovered Central European elegance, elements of a national style and the architectural insipidity of the state socialist period. Next to a shabby tenement-building on the point of collapse one may well find the glittering new premises of a bank; elsewhere the garishness of new shops on the ground floor of an old building strikingly contrasts with the dilapidated flats above.

New bank headquarters and office blocks bear spectacular witness to the expansion of the commercial sector. International finance houses and large foreign companies were the first to generate the kind of demand that could not be met by available buildings. Buildings housing new business services have also been primarily constructed by international investors, who have tended to rely on the less refined and schematic solutions of postmodern architecture. The first buildings were erected near or actually in the historical centres of cities. In view of adverse traffic conditions, however, more remote subsidiary business centres have started to appear in locations that can be easily accessed by cars. Central commercial areas have expanded everywhere, mostly at the expense of downtown residential districts and the prestigious status of historical centres has invariably been exploited. Half of the area occupied by offices in Prague is to be found in the mediaeval centre (business having quickly driven out residential functions). By contrast, one could scarcely identify a central business district in Warsaw, where there are also many vacant plots well-suited for further development.

The built environment is also enhanced by newly-built, high quality residential buildings. These have been scattered throughout urban areas on vacant plots in prestigious residential districts. The launching of the rehabilitation of downtown quarters has been accompanied by gentrification and the pace of suburbanisation has also quickened. On the other hand, the construction of housing estates has been stopped. Since the population of most cities was rap-

idly growing in the 1960s and 1970s, many people now live in housing estates. The renovation and social rehabilitation of these is one of the unenviable tasks of the coming decades.

Many old industrial areas have been left vacant due to the rapid decline and privatisation of state industry. This is particularly true in Hungary where the state has not saved uncompetitive companies from bankruptcy. The rehabilitation of old industrial areas has posed an interesting task for urban planning, although the lack of capital has not allowed for large-scale developments. The majority of former industrial buildings serve today as warehouses or house small industrial enterprises and discount stores. The first two large shopping centres of Central Europe have recently opened to the public in industrial areas of Budapest. One of these was built in the place of a dismantled factory, the other used buildings of a former barracks of the Soviet army.

### **International Relations and Participation in the International Competition of Cities**

The transition has put an end to the isolation of state socialism that severed the development of national settlement systems from one another. The opening up of borders has made the direct penetration of global economic trends possible, a change that has also altered the conditions for the domestic competition of cities.

The changing function of borders has also altered the hierarchy of cities. Cities in border regions were condemned to stagnation for decades, but some of these have been developing dynamically since 1990 (especially in regions bordering on countries of the European Union). Small and medium-sized companies have been particularly successful here, proximity of borders having rarely attracted the location of large-scale investments.

It is highly significant that large cities have now joined the international competition of cities. Up to now this competition has had few Central European participants, because only a few cities had a sufficiently competitive local economy and infrastructure. Those cities that did, however, have become the chief conduits of global trends. While they concentrate innovation

arriving from developed countries in their respective areas, only inadequately do they transmit them further to their local urban network. In the first instance, competition drives them to establish connections with other European cities. This new competitiveness has been limited to Europe, since no Central European city can be said to play a global role, and in fact little attention has been given to the competitiveness of Central European cities. Nonetheless, the main conclusions to be drawn from a study by *Conti (1994)* are the following:

- 1) only Budapest, Prague and Warsaw stand a good chance in the context of European competition;
- 2) Budapest possessed certain advantages in comparison to the other two cities at the beginning of the 1990s;
- 3) the principal characteristics of the three cities can be compared to those of the second division of Western European metropolises, especially cities located in Mediterranean coastal areas and Alpine regions (e.g. Lyon, Turin).

The European integration of the largest cities has increased discrepancies within national urban systems. Many small and medium-sized industrial towns have long grappled with the transformational crisis, their main ambition being the attraction of industry withdrawing from Western Europe. The development of high standard business services and the transition to an informational city will remain the privilege of a few, internationally competitive metropolises in the near future.

## Conclusion

In the light of what has gone before, I will now try to answer the two questions raised in the Introduction. The following is to be noted with regard to the *main characteristics of the transition*. The Central European urban system has been shaped by three types of transformation. First, the transition from a state-planned economy and the political system of state socialism to a market economy and a democratic political system; second, a delayed transition from the industrial city to the postindustrial city; and finally, the

general transformation of the global economy. Another general trait of the transition is characterised by a peculiar mixture of spectacular novelties and uninterrupted continuity. Although the transformation of cities is generally a gradual process, the last fifty years have brought about dramatic changes in the composition and functioning of urban society and urban functions, as also in the built environment, first during the period of state socialism and then during the seven years of political and economic transition. At first sight, it may seem that there was a complete change after 1948 and 1990. Yet a marked continuity can be discovered beneath the surface. This continuity has been maintained by the slowly changing values and behaviour of the urban population, on the one hand, and the stasis in the built environment, on the other. This should also explain why European tendencies of urban development can still be seen to have been at work in socialist urbanisation in Central Europe, even if in a somewhat modified form. By the same token, egalitarian values of state socialism are nowadays reflected in the uneasiness about growing social inequalities and the fervent defence of the welfare state.

The urban characteristics of the transition can be summarised as follows.

- *Reshuffling of the urban hierarchy.* Differences within the urban system have grown. Some cities, traditional industrial centres in particular, have been relegated to lower positions in the urban hierarchy. This relegation entails a high unemployment rate, growing urban poverty, decay of services and disintegration of the city's cultural environment. New dynamic centres owe their success to the adaptability of the local population, and in some cases to a favourable geographical location as well. Social discrepancies in urban conditions and the availability of urban resources are not necessarily of recent date, but previously the consequences of these were counterbalanced by state paternalism. The same discrepancies, however, have been very strongly foregrounded by the sudden appearance of market competition. Changing markets and structural transformation account for the altered attitude to traditional urban values. Alterations in urban hierarchy could also be observed in traditional market economies in the 1970s.

A small number of cities have acquired international functions due to the opening up of borders. Capitals of Central European countries in particular have been able to enter the European competition of cities and act as gateways mediating innovation from the West towards their respective national areas, and in some cases towards Eastern and South-eastern Europe as well. However, this has intensified inequalities within the urban network.

- *Transformation of urban society.* An economic elite has appeared, in part recruited from the members of the political and cultural elite of state socialism. The immoderate consumption of this class may be shocking, but their accumulated wealth is seldom significant. To date, no Rockefeller dynasty has emerged in Central Europe (and in particular no phenomenon like the Rockefeller grandchildren, spending lavishly on culture and charity from the inherited riches). Central European cities are characterised by underdeveloped middle classes, a general absence of the ‘bourgeoisie’. This is not only a legacy of state socialism since with the single exception of the Czech Republic, the middle classes have traditionally been weak in all Central European countries. It takes a long time before these middle classes gather strength and middle-class values strike root. This will also depend on how permanent economic recovery will prove to be. Nevertheless, the great number of private enterprises that now exist may provide the basis for the strengthening of the new middle class.

The massive proportions and new forms of urban poverty, such as permanent unemployment and homelessness, have provoked dismay and outrage. The Central European lower class is to a large extent still attached to its rural background. Many are unqualified migrants from rural areas who have been attracted to large cities by large state industry, but could never become part of urban society. They lived in cheap flats, workers’ hostels or lodgings and maintained their links, which sometimes also meant part-time jobs, to their rural background. They have been the hardest hit by the dramatic decrease in industrial employment. Many have migrated back to their villages, hoping to be-

come self-sufficient. However, since rural crisis has been even deeper than that in cities, they and other rural groups have soon returned to the cities to join the black economy. The insufficiency of their income for city rents, however, does not allow them to settle permanently in cities.

The appearance of foreign immigrants represents a new development in large cities. The multiethnic city has had a long tradition in the Austro-Hungarian Monarchy, but the various ethnic groups were always citizens of the Monarchy as well. After half a century of isolation, immigrants from the Balkans, Eastern Europe and Asia have caught the population unprepared. Postcommunist countries, themselves looking back on a history of emigration, are as yet unable to form a clear immigration policy.

- *Changing factors of urban development.* Under state socialism, urban development depended on the redistribution of the central budget, but now it is shaped by several factors. It is possible to distinguish between the *main agents* and *main co-ordinators* of urban development. The *principal agent* of urban development is certainly the economy. Employment, investment and relations to other settlements are all the results of economic decisions, ranging from the location of the investment of transnational companies to the personal strategies of self-employed entrepreneurs. The local economy is responsible for the competitiveness, and therefore the success or failure of a given settlement. The presence of transnational companies has directly connected certain settlements to global trends. In terms of their influence on urban development, private households are the next most important factor. The savings of the local population may significantly contribute to the development of local infrastructure and most new homes are built by private households. The future of a settlement is largely dependent on the strategies of families (Will they move to other settlements? Will they educate their children locally? etc.).

The decisions of these principal agents of the transformational process are not motivated by objectives of urban development. They simply seek profit or personal welfare. The *main co-ordinators* of urban development include local governments and, in some cases, civil organi-

sations. Local governments aim to use financial resources, economic decisions and public services to the advantage of the general development of their settlement. The Central European system of local government is characterised by the following attributes:

- 1) the great number and regional fragmentation of local governments;
  - 2) the absence or weakness of regional governments;
  - 3) the considerable independence of decision-making of local governments coupled with strong financial dependence on the central budget.
- *Transformation of the built environment of cities.* The renovation of inner districts and the expansion of central business areas have been spectacular in all Central European countries. Although large-scale construction works of state socialism had usually not been located in downtown areas (politically motivated, demonstrative architectural undertakings characteristic of Eastern European countries were a comparative rarity in Central Europe), many housing estates were built. The construction industry has, of course, also been hit by the economic recession of the transition period, but fresh demand has been generated by the new institutions of the emerging market economy (banks, offices, shopping centres) as also by a well-to-do segment of the population that can now afford better housing. This has led to the renovation of inner districts and accelerated suburbanisation. The rapid decline of housing estates into slums represents the ‘time bomb’ of urban development, a possible source of a grave urban crisis of the future.

In conclusion, I see no obstacles to the integration of Central Europe into the European urban system. Central Europe has never been completely isolated from European urbanisation processes during the period of state socialism. In addition, the state socialist ‘detour’ lasted only a little longer than forty years. The countries concerned all border on western market economies and European Union member countries. The existence of a common geographical space may well contribute to the evolution of multifaceted regional connections. It is also advantageous that the European core region of urbanisation has begun to expand eastwards in the wake of German reunification.

cation and the economic progress of the Mediterranean–Alpine region. Integration has already been taking place on the periphery of the European urban system. Typical characteristics of the Central European subsystem in the near future may be the strong presence of industry, the concentration of business centres of international significance in a handful of cities, the weakness of the urban middle class, growing rural poverty and slow recovery of the underdeveloped infrastructure. Integration will expose Central European cities to strong external competition. This competition may overwhelm them; on the other hand, it may accelerate a long delayed process of modernisation.

### Notes

- <sup>1</sup> This comprises Germany and Austria.
- <sup>2</sup> This large demand is to be attributed to low technological standards, cost-insensitive production and the politically privileged status of industry as well as the effective lobbying of industrial management.
- <sup>3</sup> Budgetary resources that could have been spent on infrastructural developments were used to subsidise a chronically unproductive economy.
- <sup>4</sup> Choice is always limited, for example, by the actual location of department stores or that of the nearest optician. This is true of all economic systems, but in the state-planned economy the location of the commercial sector did not correspond to consumer demand. On the contrary, it was determined by various priorities of planning and often followed the existing hierarchy in administration or public services.
- <sup>5</sup> In Czechoslovakia and Poland, central planning directives governed the economy. These were issued by planning offices, sectoral ministries and trusts controlling industrial groups. Sectoral planning was abolished in Hungary in 1968. In principle, companies could make their decisions independently. An overregulated, stimulated market and the strong dependence of the management of state-owned companies on governmental authorities appointing company managers rendered this independence illusory.
- <sup>6</sup> The Czech form of privatisation, the so-called coupon-privatisation, has allowed all citizens to participate in privatisation. Majority ownership of formerly state-owned companies has been acquired by small shareholders. The portfolios, however, are managed by investments funds. These are in

turn in majority ownership of state banks. Despite a formal privatisation, therefore, the conservative government has maintained the possibility of state control in the economy. It has also made use of this possibility by keeping unemployment low through overemployment in these companies, and by controlling inflation through the central regulation of wages. It seems likely that the ‘moment of truth’ will soon arrive in the Czech Republic and the costs of transformation will also have to be paid by the Czech economy and society as well. It is not impossible, however, that these costs will be lower than in Poland and Hungary in 1990.

<sup>7</sup> The majority of postcommunist Central European countries belonged to the Monarchy.

<sup>8</sup> The share of tenements in housing was higher in large cities: 54% in Budapest, 59% in Prague and 45% in Warsaw.

<sup>9</sup> For example, floorspace per capita, rooms per capita, number of homes per 1000 inhabitants, share of rents in average income.

<sup>10</sup> Among all postcommunist countries, the share of flats returned to the original owner before the nationalisation was the highest in the Baltic states (7% of all homes in 1990).

## References

- Andrusz, G. – Harloe, M. – Szelényi, I. eds. (1996). *Cities after Socialism*. Oxford: Blackwell.
- Bennett, R. J. ed. (1993). *Local Government in the New Europe*. London: Belhaven.
- Braun, G. O. ed. (1994). *Managing and Marketing Urban Development and Urban Life*. Berlin: Dietrich Verlag.
- Brunet, R. ed. (1989). *Les villes européennes*. Paris: La Documentation Française.
- Cattan, N. – Pumain, D. – St. Julien, T. (1994). *Le système des villes européennes*. Paris: Economica.
- Conti, S. (1994). *La città e la transizione post-socialista in Europa Centro-Orientale*. Torino: DIT Working Papers. No. 1.
- Dunford, M. – Kafkalas, G. eds. (1993). *Cities and Regions in the New Europe*. London: Belhaven.

- Enyedi, Gy. (1992). "Urbanisation in East Central Europe: Social Processes and Societal Responses in the State Socialist System." *Urban Studies* 29. pp. 869–880.
- Enyedi, Gy. (1995). "The Transition of Post-socialist Cities". *European Review* 3, No. 2. pp. 171–182.
- Enyedi, Gy. (1996). Urbanization under Socialism. In: Andrusz, G. – Harloe, M. – Szelényi, I. eds.: *Cities after Socialism*. Oxford: Blackwell. pp. 100–119.
- Enyedi, Gy. (1997). Budapest: Return to European Competition. In: Jensen Butler, Ch. – Shachar, A. – van Weesep, J. eds.: *European Cities in Competition*. Aldershot: Avebury. pp. 230–249.
- Enyedi, Gy. – Szirmai, V. (1992). *Budapest – A Central European Capital*. London: Belhaven.
- French, R. A. – Hamilton, F. E. I. eds. (1979). *The Socialist City*. New York: Wiley.
- Frydman, R. – Rapaczynski, A. (1994). *Privatization in Eastern Europe: Is the State Withering Away?* Budapest–London–New York: CEU Press.
- Godelier, M. (1987). "The Analysis of Transition Processes". *International Social Science Journal* 39, No. 4(114). pp. 447–459.
- Hall, P. (1993). "Forces Shaping Urban Europe". *Urban Studies* 30, No. 6. pp. 883–898.
- Ladányi, J. (1989). "Changing Pattern of Residential Segregation in Budapest". *International Journal of Urban and Regional Research* 13. pp. 555–572.
- Lever, W. F. (1993). "Competition within the European Urban System". *Urban Studies* 30, No. 6. pp. 935–948.
- Musil, J. (1993). "Changing Urban Systems in Post-communist Societies in Central Europe: Analysis and Prediction". *Urban Studies* 30, No. 6. pp. 899–905.
- Pichler-Milanovich, N. (1994). "The Role of Housing Policy in the Transformation Process in Central-East European Cities". *Urban Studies* 31. pp. 1097–1115.

- Stark, D. (1992). "Path Dependence and Privatization Strategies in East Central Europe". *East European Politics and Societies* 6, No. 1. pp. 17–54.
- Szelényi, I. (1983). *Urban Inequalities under State Socialism*. Oxford: Oxford University Press.
- Turner, B. – Hegedüs, J. – Tosics, I. (1992). *The Reform of Housing in Eastern Europe and the Soviet Union*. London: Routledge.
- Węcławowicz, G. (1992). The Socio-spatial Structure of the Socialist Cities in East-Central Europe: The Case of Poland, Czechoslovakia and Hungary. In: Lando, F. (ed.) *Urban and Rural Geography*. Venice: Cafoscari. pp. 129–140.



The *Discussion Papers* series of the Centre for Regional Studies of the Hungarian Academy of Sciences was launched in 1986 to publish summaries of research findings on regional and urban development.

The series has 3 or 4 issues a year. It will be of interest to geographers, economists, sociologists, experts of law and political sciences, historians and everybody else who is, in one way or another, engaged in the research of spatial aspects of socio-economic development and planning.

The series is published by the Centre for Regional Studies.

Individual copies are available on request at the Centre.

Postal address

---

Centre for Regional Studies of the Hungarian Academy of Sciences  
P.O. Box 199, 7601 PÉCS, HUNGARY  
Phone: (36-72) 212-755, 233-704  
Fax: (36-72) 233-704

Director general

---

Gyula HORVÁTH

Editor

---

László HRUBI

\* \* \*

**Forthcoming in the *Discussion Papers* series**

*Changes in the Politico-geographical Position of  
Hungary in the 20th Century*

by

Zoltán, HAJDÚ

### **Papers published in the *Discussion Papers* series**

---

- No. 1 OROSZ, Éva (1986): Critical Issues in the Development of Hungarian Public Health with Special Regard to Spatial Differences
- No. 2 ENYEDI, György – ZENTAI, Viola (1986): Environmental Policy in Hungary
- No. 3 HAJDÚ, Zoltán (1987): Administrative Division and Administrative Geography in Hungary
- No. 4 SIKOS T., Tamás (1987): Investigations of Social Infrastructure in Rural Settlements of Borsod County
- No. 5 HORVÁTH, Gyula (1987): Development of the Regional Management of the Economy in East-Central Europe
- No. 6 PÁLNÉ KOVÁCS, Ilona (1988): Chance of Local Independence in Hungary
- No. 7 FARAGÓ, László – HRUBI, László (1988): Development Possibilities of Backward Areas in Hungary
- No. 8 SZÖRÉNYINÉ KUKORELLI, Irén (1990): Role of the Accessibility in Development and Functioning of Settlements
- No. 9 ENYEDI, György (1990): New Basis for Regional and Urban Policies in East-Central Europe
- No. 10 RECHNITZER, János (1990): Regional Spread of Computer Technology in Hungary
- No. 11 SIKOS T., Tamás (1992): Types of Social Infrastructure in Hungary (to be *not published*)
- No. 12 HORVÁTH, Gyula – HRUBI, László (1992): Restructuring and Regional Policy in Hungary
- No. 13 ERDŐSI, Ferenc (1992): Transportation Effects on Spatial Structure of Hungary
- No. 14 PÁLNÉ KOVÁCS, Ilona (1992): The Basic Political and Structural Problems in the Workings of Local Governments in Hungary
- No. 15 PFEIL, Edit (1992): Local Governments and System Change. The Case of a Regional Centre
- No. 16 HORVÁTH, Gyula (1992): Culture and Urban Development (The Case of Pécs)
- No. 17 HAJDÚ, Zoltán (1993): Settlement Network Development Policy in Hungary in the Period of State Socialism (1949–1985)
- No. 18 KOVÁCS, Teréz (1993): Borderland Situation as It Is Seen by a Sociologist
- No. 19 HRUBI, L. – KRAFTNÉ SOMOGYI, Gabriella (eds.) (1994): Small and medium-sized firms and the role of private industry in Hungary
- No. 20 BENKÖNÉ LODNER, Dorottya (1995): The Legal-Administrative Questions of Environmental Protection in the Republic of Hungary