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## Categorization of cities based on competitiveness

### **Type-setting efforts in Hungary**

As an initial statement it can be accepted that the “competitiveness of regions is embodied by cities, which can be seen as the engine of development”<sup>1</sup>

If competitiveness of regions and cities is divided into periods, then in case of Hungary at least two periods can be identified, which fact is partly in harmony with international tendencies. The first period is up to the 1980s, when we can not yet talk about a real competitive situation in the case of cities<sup>2</sup>.

Development of settlement network depended on central decisions, let's think for example of the governmental location of industrial possessions, the division of infrastructural possessions, and settlement network-developmental concepts. Industrial plants, lacking any kind of development, appeared in some cities as a result of a single decision of state-owned companies, significantly changing previous function and the face of settlements. Due to completely avoiding conditions of a settlement when locating industrial possessions, a closer relationship between the company, the wealth and society of the settlement could not appear as a natural consequence of possession. In the case of mono-functional settlements the decrease or the complete disappearance of productivity in some plants meant a more serious problem causing additional drastic changes in the life of the premises.

Settlement leaders' personal relationships, better to say their lobbying activities, played a much more significant role in the development of cities, than local conditions; existing resources; more favorable conditions provided by the local community; the demographic, socio-cultural and natural environment. The from above (government) controlled processes, which could not be called competition, the development of settlements were inspired with the exemplary practice of locating institutions, the monopolistic situation of service providers, and the priority of administrative roles and categories (county seat, chief town of the district, city or village).

The hierarchic network of settlements operated quite mechanically; means of development were distributed among counties. County seats, operating as centers with power, organized the further distribution of resources.

Institutions were mainly established in county seats, and chief towns of districts, due to their favorable position. This process fundamentally influenced the daily life and living conditions of inhabitants. This same phenomenon brought about migration, had an effect on demographic processes, the occupational structure, the stratification of local communities, and the degree of supply of services.

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<sup>1</sup> Horvath 2001., 207 p.

<sup>2</sup> Beluszky 2000 a,b

The possibility of a settlement to act individually was limited by the low ratio of local income within all the available resources.

All in all, a quite homogenous city-stock, which developed in a concentrated manner, was outlined by the end of the 1980s in Hungary, where regional differences occurred mostly along a settlement hierarchy<sup>3</sup>. All this appeared in a mosaic-like spatial structure.

The beginning of the second period is related to the *political transition in 1989*. Considering the period after 1990 it is more relevant to talk about real competitive situations in the case of cities. Due to the passing of the 1990 local governmental bill developmental conditions for cities have been modified, and the financial practice of settlements have changed. Counties have lost their former role to centrally finance processes, and county-seats, in my opinion understandably, have even today remained outstanding members of the settlement hierarchy (central locations of public healthcare, jurisdiction, labor issues, museum issues, network of libraries, etc.). The importance of central development has decreased on the lower levels of the hierarchy, chief towns of districts disappeared as well as town-surroundings. Local governments receive normative central support, which they are entitled to regardless of their legal stand. For settlements it became possible to levy local taxes. Means of settlement development and economic policy became much more indirectly available (local governmental means of development and operation get to settlements at a higher ratio from the central budget). "... the effectiveness of the selection of premises and their operation takes place mostly according to the legitimacy of market economy; but the same can be declared in connection with certain institutions of towns."<sup>4</sup> Besides the fact that several changes themselves have increased the autonomy of cities (e.g. gaining possession; the opportunity to earn income related to possessions; privatization, etc.), local conditions of towns (geographic conditions, situation of traffic, environmental status, degree of supply in the field of infrastructure, labor market, buying power of inhabitants, etc.) became determinant in the competitiveness of these settlements. The predetermined character related to the position of being a former town or village, city or county-seat became less significant. Settlements could become more independent and more equal, with all the advantages and disadvantages of the new situation.

After the transition there was an increasing interest in how the position of settlements in the Hungarian settlement network could be interpreted. It was another major interest to find explanation to the reasons why rearrangements occurred.

According to some surveys modern institutions offering business and economic services appeared in an increasing number, and provided a continuously higher quality of service.<sup>5</sup> These institutions seemed to be closely related to one another. This phenomenon was considered to be a new function of cities. By the end of the 1990s the spatial organization and high number of these institutions contributed to the competitiveness of certain cities. These institutions with their new functions pushed those institutions of public service into the background which at the beginning of the century were representing determinant functions. This at the same time meant that competitiveness encouraged from above was becoming less dominant compared to

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<sup>3</sup> Beluszky 2000 a,b

<sup>4</sup> Beluszky 2000 a, 3 p.

<sup>5</sup> Lengyel – Rechnitzer 2000

competitiveness based on market conditions. The fact that business and economic services became more available allowed them to more easily gain ground.

The tertiary sector in Hungary could gain ground significantly more easily than the same sector internationally. All the above mentioned has resulted in a more flexible premises-selection of businesses, which allowed several settlements to actively participate in the competition among cities. The mass appearance of international capital as well as the fundamentally new perspective of premises-selection also resulted in a growing competition among cities. Recently, income-earning opportunities of regions became the most important in influencing competitiveness, replacing the importance of a city's position within the hierarchic system. These income-earning opportunities of regions are related to the amount of investments and the all-different labor-market situation. The regional dimension of competition has become more important. Differences between regions became more significant than differences between cities, and the existing differences between cities have clearly decreased. (e.g. geographic location in the case of the Austrian Slovenian frontier zone). All the above mentioned resulted in the disappearance of the mosaic-like character of the past spatial structure, and in the significance of regional affiliation.

Budapest and its agglomeration, some large cities, as well as the western frontier of the country together with the region related to the Mosonmagyaróvár – Győr – Budapest axis were becoming more dynamic. If we try to tinge the three-part-model of the country (east and west, capital and countryside), the zones of the country will be the following based on their level of development:

- Agglomeration of Budapest and the region of north-west Hungary; within the latter one the area around lake Balaton and the Vienna – Budapest axis.
- North-east Hungary, including northern Hungary and the northern part of the Great Plains. (From Nógrád county through Szolnok county to the northern half of Békés county).
- Southern Hungary (the territory to the south of the Nagykanizsa – Dunaújváros – Békéscsaba borderline).

Problems are the most crucial in north-east Hungary, which got into a crisis situation due to: the disappearing mining industry, metallurgy and metal industry; the region's unfavorable geographic location; the market loss of light and food industries formerly producing for the COMECON markets; the crisis of the agrarian sector. Southern Hungary is made up of differently developed regions. The traditionally underdeveloped smaller regions with small villages, as well as the frontier settlements of the southern Transdanubian region are in a very critical situation. Thus it can in general be stated that the level of development in southern Hungary is much lower, than in the regions mentioned in the first group.

When grouping Hungarian cities in five categories it can be noticed that the number of stable and active cities has increased (county-seats, major cities, traditional medium-sized towns).<sup>6</sup> Real competition can be related only to this level of settlement hierarchy, which competition from an international perspective would be hardly considerable. Within the category of stable and active cities it is possible to get an idea of the changes and dynamics of competitiveness based on the non-specific values of five dynamic economic indicators when using the method of combined ranking. Non-specific values are: the growth rate of retail turnover 1998/90;

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<sup>6</sup> Lengyel – Rechnitzer 2000

the growth rate of added value appearing in the industry and services 1998/95; the changing rate of business taxes 1998/95; the changing rate of taxable personal income 1998/95. The present competitiveness of cities can be understood based on the other four dynamic economic indicators, which are all specific values: like the net income of retail companies per inhabitant – 1998; the corporate income tax-base per employee in the case of processing industry companies with double-entry book-keeping – 1998; the net income per employee in the case of companies providing business-services with double-entry book-keeping – 1998; the taxable personal income per inhabitant – 1998.

Based on the so far mentioned two orders of ranking, four subgroups of competitiveness could be differentiated in the case of towns of county rank:

- Winners (e.g. Szombathely, Győr, Székesfehérvár, Dunaújváros)
- Those catching up (cities with favorable dynamics, but presently at a lower rank e.g. Sopron, Debrecen, Pécs, Nyíregyháza)
- Those falling behind (cities with a position that is presently more favorable, but based on their dynamics they are at a lower rank e.g. Szeged, Szolnok, Szekszárd)
- Losers (neither their dynamics, nor their present position would allow them to be at the top part of the rank e.g. Miskolc, Békéscsaba, Hódmezővásárhely)

Among the so-called *special cities* with a *certain function* there are resort towns, frontier cities, agglomeration towns, and industrial cities which all have unique local characteristics. Due to this fact, they are more apt to experience cyclical influences as well seasonal changes. Such cities are Siófok, Paks, Százhalombatta, Tiszaújváros. In order to stabilize and increase their competitiveness it is required of these cities to extend their role in consumption and service provision, as well as to increase their general importance within the region they belong to.

The third group is made up of *continuously changing* cities, which are *able to shift to a more advantageous position*. Several large towns e.g. Eger can be listed here, numerous traditional medium-sized towns e.g. Baja, Keszthely Mosonmagyaróvár are also included among them, as well as the small and medium-sized towns e.g. Aszód, Pécsvárad established in the 70s – 80s – 90s. Market factors and modernization all play a more significant role in the functions of these towns. New market economic institutions appear together with new service units. The cities in a so-called *transitional phase* form a separate group. Primarily those small towns belong to here which were established in the 1990s and are located in the agglomeration of Budapest, in the region between the Danube and Tisza rivers, as well as in the Transdanubian region. As their name indicates these towns do not yet have a stable enough economic structure or institutional network. The income earned in these towns can be considered moderate.

Cities established during the 1990s and located in the region east of the Tisza river are the ones primarily belonging to the group of those settlements which are *falling behind*. These towns have also experienced shifts in the development of their economic base, but the pace of development was behind that of the city network's which resulted in an increasing lagging behind. The majority of such towns can be found in an agrarian region or in an industrial crisis region. As the majority of towns belonging to the group of *losers* and those *falling behind* were established in the 1990s, it might not be a thoughtless remark to say that the declaration of these towns

to be towns in many cases were lacking a real basis. The missing characteristics of modernization, and in general the lack of quality parameters should have been considered when declaring a settlement to be a town.

Large cities with a large population and an extended commuter belt can be considered winners of the city competition of the 1990s. These large cities had earlier as well had multi-level institutions and also a better income producing ability. The same cities stabilized their position through the market economic institutional network; they partly extended their role in the region, and their significance within the region is expected to gradually increase. It seems that the position of traditional medium-sized towns is becoming more stable; their roles might be extended on a minor and mezo-regional level similar to that of cities in a special position. From among small settlements mostly those could experience development in the future, in which the conditions of permanent economic growth are given. These economic conditions could provide the possibility to join the regional economic networks established by large cities.

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