

BOOK REVIEWS

Horváth, Gy.: *Európai regionális politika (Regional Policy in Europe)*
Budapest–Pécs: Dialóg Campus, 1998, 501 pp.

Among European Union policies, regional policy has always been considered a key domain due to its considerable role in negotiation of interests between member countries and distribution of European Union funds. Its significance, however, is expected to increase further as soon as countries of the Central Eastern European region join the European Union and start lobbying for the concentration of European Union resources in the area. The new member states of the EU will stand on the periphery – not only in the geographical sense, but also regarding their level of economic development.

Concerning Hungarian integration strategy, besides efforts for harmonisation with EU regulations, the formation of European Union regional policy is of key importance. Without doubt, Hungary will benefit from regional policy of the EU. Prospects of the country's economic development, however, largely depend on the degree to which regional policy conditions correspond to Hungarian interests. The fact that Hungary will surely be one of the beneficiaries creates rivalry between South European member countries, Ireland and Hungary, which is indeed a factor expected to slow down integration.

Gyula Horváth's monograph on European Union and Hungarian regional policies is a long-awaited, comprehensive analysis, useful both from the aspect of science and economic policy. From the general towards the specific, Horváth's book starts with a historical and theoretical overview, followed by an analysis of national regional developments in Europe. Based on the latter, the author goes on to examine the different influencing factors of regional development, regional policy levels in Europe and regional policy in the European Union. Weak points of Hungarian regional policy become much more evident as placed in the context of that of the EU. The author concludes his book by outlining long-term goals of adaptation to the restructured European scene of the future. This concluding section is of particular interest not only for the economist or the geographer, but also for the historian. Long term spatial processes have recently accelerated in Europe – shedding new light on writings of scholars of the French 'Annales' movement, particu-

larly those of Fernand Braudel.¹ Giving the reader a chance to reconsider the evolution of centuries-long economic processes is one of the major achievements of Horváth's book.

Chapter 1 on institutionalisation of spatial development gives insight into the theoretical evolution of modern regional policy. Horváth focuses on the state as the organiser of both spatial and economic processes. He claims that modern regional policy was brought about by the creation of modern administrative systems. This claim, in my opinion, is a slightly misleading one – the reader might have the wrong impression that following the early conscious intentions of ancient states, history of regional policy continues after an abrupt halt only in the 19th century (p. 23). Although it is certain that regional policy as such did not exist in the Middle Ages, space already had a significant role in economic co-ordination and organisation.

The author shows that the new paradigm of regional policy is rooted in the increasing role of small and medium-sized enterprises and in the resulting structural changes. The new kind of regional policy places great emphasis on bottom-up decision-making and strives to decrease the weight of centralised processes. The quickly spreading influence of this theoretical approach managed to fundamentally reshape the goals and methods of regional policy over a couple of decades. A pursuit to reveal the manifold relationship between economic restructuring and regional policy constitutes one of the most original themes throughout Horváth's work.

Case and country studies in Chapter 2 prove the relevance of the theoretical arguments previously developed by the author. All the cases described illustrate the relationship between economic restructuring and regional policy. The British case, for instance, is a brilliant example: in Britain legal regulation of regional policy was brought about following the codification of a law on industrial development (p. 55).

The author did not only coin a new term but created a novel concept by introducing and explaining the expression "spatial keynesianism". The strong relationship between income-oriented state intervention and organisation of economic space is highlighted here. Using British statistical data (p. 64) Horváth convincingly proves his thesis that significant regional development over a short period can only be achieved by the means of great state expenditures.

¹ In his book *La Méditerranée et le monde méditerranéen à l'époque de Philippe II* (Paris: Armand Colin, 1966) Braudel analyses the impact of spatial environment on economic and social development in the widely understood Mediterranean region, thus containing interesting Hungary-related information.

The Irish case study, however, is even more peculiar and relevant at the same time. Over a relatively short period of time Irish regional policy managed to achieve an impact so significant that it was reflected even by a subsequent increase on the macroeconomic level. Economic policy background and methods to speed up regional and, as a consequence, economic structural development can be exceptionally well illustrated by the Irish example. Fast and extensive spreading of industry in the country was an essential factor of the two decades of Irish modernisation, notes Horváth (p. 95). In the background of the process, the fast creation of industrial sites was responsible for this development. The inflow of foreign capital in the form construction of industrial sites, due mainly to the availability of cheap and less skilled labour force, is not unknown in recent Hungarian economic development either. Although at this point it is not sufficiently emphasised that creation of industrial units cannot possibly lead to more than short-term economic gains, later on in his book the author mentions poor quality of human resources as one of the major threats to the cohesion of Irish economy (p. 101).

Of great importance for present Hungarian strategy, the influence of regionally oriented educational policy and fast modernisation of Irish labour force on industrial development and FDI have been a further question of analysis. Nevertheless, the study on Irish regional policy remains relevant. It presents an important and successful attempt to eliminate both backwardness and regional differences. It draws up a model in which rural spatial organisation is modernised accompanied by a steadily growing emphasis on the development of regional and infrastructural conditions of increasing competitiveness.

Regional developmental dualism (or even trialism) of the Italian economy has for a long time been widely known in Hungary. The detailed and well-balanced evaluation of the Mezzogiorno program, however, yields important opportunities for reflection. On the one hand, social tensions of the South have not disappeared but rather were transferred to big cities, and the commercial balance of the region has even worsened as a consequence of the program. On the other hand, the region became involved in Italy's economic circulation, a considerable step taken towards economic cohesion of Northern and Southern regions. The author again could make attempts to arrive at a few less evident conclusions. A more general model of integration of two regions on very different levels of economic development could be outlined, applicable to processes already carried out (Germany) or to be carried out (perhaps Korea).² Regional dualism has not disappeared com-

² It has been noted that as a consequence of the authoritarian unification of two regions welfare increases in the previously more underdeveloped one. In spite of this, even the social groups that are winners of the process compared to their previous situation are observed to feel discontent.

pletely in Italy, but was rather divided further up into three or four regions with sharply different levels of development (p. 144). Present day Italian regional development has arrived at a turning point. Incomplete regional decentralisation needs to be given new momentum due to both political initiatives originating in the regions and challenges posed by a more and more unified European market.

The section on regional development in East-Central European countries contains important data on economic history and macroeconomy, but the author here chooses to reflect on the data in uncommitted style, arriving at no strict conclusion. This part of the book reflects the fact that present dilemmas will only be decided in the light of EU regional policy and its financial conditions.

Chapter 3, an extensive discussion of *spatial development of post-industrial Europe*, is introduced by linking the theory of long cycles and sectoral driving forces of regional development. Although considering research and development and higher education among regional driving forces is not a novelty in the literature, Horváth manages to document this thesis with exceptionally rich data. In addition to improving the quality of knowledge, R&D and higher education can exert their influence on regional development through creating a more equal regional distribution of this important resource.

As a consequence of internationalisation of the economic space, competition between regions becomes just as apparent as cohesion forming between the regions. Discussing this problem, the author turns specifically towards the Hungarian economy concentrating on data about regional competitiveness within Hungary. A detailed analysis follows, based on comparative shares of the different Hungarian counties in foreign trade. According to the latest statistics (1993), Budapest contributed by more than 50% of total exports by countries.³

Chapter 4, a discussion on *the distribution of power between the state and the regions*, can be regarded as the central part of the book. In this chapter the author deals with the both politically and logically challenging question: to what extent should the state be interested in partially yielding its control to regional bodies or to what extent can centralised power be asserted in regional policy which calls for decentralisation by nature.

Focus of regional policy has increasingly shifted towards questions of financing, as the author asserts. The analysis of methods is presented in a clear-cut structure (1. micro level, 2. co-ordination, and 3. macro level methods) after stating that type 1 methods dominate developed market economies, and priority is given to capital investment. Although the author does not explicitly mention the issue, we

³ This data has probably changed considerably since 1993, as during the following years the majority of toll-free investments have been set up in the countryside, especially in the Western regions (e.g. by IBM in Székesfehérvár, Audi in Győr, Opel in Vas county).

feel obliged to ascertain that besides capital investment, direct relationship is observed in several countries between regional policy and competitiveness enhancing policy through industrial, competition and R&D policies.

Similarly to Chapter 4, *Chapter 5* also contains a large amount of important data. This chapter addresses *cohesion policy of European integration* – the topic probably most relevant to Hungarian researchers. Most of the issues touched here by the author would be worthy of special attention in this review. An especially thorough and professional system of criteria for identifying regions that need to be developed is probably the most important strength of this chapter (pp. 339–346). These pages show much more clearly than general development indicators that by the time of its enlargement the Union has to decide: either it increases the European Union budget for regional development, or it entirely reformulates present subsidy system. Even more so, since we have, supported also by the findings of the book, good reason to think that cohesion remains a primary political objective in European integration.

Subchapter 5.3, besides being interesting from a scientific aspect, is of distinguished relevance for economic policy. The author here presents a statistical analysis of the enlargement and the union's reform policy. That Ireland and the three relatively underdeveloped Mediterranean member countries will experience the decrease in subsidies most intensively is not a surprising assertion. Horváth, however, brings up important arguments to elaborate this evident truth. He shows that the four above-mentioned countries are expected to experience the decrease for another reason as well, namely current union regulations (p. 375). The GDP per capita in Ireland has reached the average of the European Union and the unemployment rate is quite low in Greece and Portugal.

Chapter 6, the evaluation of Hungarian regional policy in a European comparison, constitutes the first part of the conclusion. Current legal regulations and institutions of Hungarian regional development are of high potentials for reducing existing regional differences, as experts of the European Union have also documented it. The detailed analysis of the author, however, goes beyond this apparent assertion by showing operational weaknesses of Hungarian economic policy. The weakest level of regulation is the regional one (p. 406), current regulation of co-ordination is not satisfactory, conditions of concentration and additionality are not elaborated enough (p. 407), and on the top of this, the size of the budget set aside for directly financing regional development lags behind requirements (p. 408). In general, Hungarian regional policy comes moderately near to EU compatibility, as documented in detail by the author (p. 409).

Unlike the preceding chapters, *the concluding chapter* of the book is written in an essayistic style. Looser organisation of the message encourages the reader to continue the analysis of the ideas presented and to draw his or her own conclu-

sions. Original arguments, for example on competitive advantages of rural regions, direct the reader's attention towards strategic dilemmas of the future.

According to Horváth's book, Europe is currently undergoing a reorganisation process into transnational macroregions. Whether Hungary will succeed in joining the "Alpine arch" macroregion, or the expectedly still dynamic but more unstable East-Central European macroregion is crucial in all future respects, among them from the country's regional development.

Ádám Török

Bara, Z. – Csaba, L. (eds): *Small Economies Adjustment to Global Tendencies*

Budapest: Aula Publishing Co. Ltd., 2000, 480 pp.

In undergraduate economics seminars, one of the most common approaches used by instructors is to focus on the so-called "small country assumption". This assumption allows model building to be based around the idea that the economy being analyzed cannot have a manifest impact on world supply and demand. This places the small economy in a rather tenuous position if it wishes to formulate an economic development strategy based around import substitution and the creation of domestically owned capital. Effectively, small economies take world prices as given.¹ This severely constrains economic policy makers in these types of economies. The theory is arguably supported by empirical evidence of attempts by small developing nations to pursue import substitution policies.

It is also claimed that the lessons of failed development policies of the 1960s and 1970s led to the support for more economic liberalization and de-regulation of developing economies. This has been further reinforced by a perception that the world economy has radically changed in the 1980s and that the fortunes of small economies do not lie in protectionist trade policy but in embracing open markets. This process, also supported by this book, is termed "globalisation".² This latter term will not be used in this review, rather, a less problematic term "increasing economic interdependence". In the ongoing (and seemingly never ending) debate over the impact of increasing economic interdependence, this collection of papers from a conference organized by the European Association for Comparative Eco-

¹ Akin to the assumption about firms under pure competition.

² No attempt is made here to discuss globalisation. The reader is encouraged to consult a range of sources including: Hirst and Thompson (1996), Strange (1996), Ohmae (1993), Scholte (2000).

conomic Studies is an attempt to put empirical meat on theoretical bones. As the title indicates, there is a specific emphasis on how “small economies” are affected by the economic transformations currently occurring.

The chapters in this collection are from a range of authors across a number of different national experiences. As is the current trend, the papers focus predominantly on microeconomic aspects of these transformations with only two chapters devoted to macroeconomic aspects of economic interdependence. The single largest contribution that this edited volume provides is the abundance of empirical studies from several countries. Unsurprisingly, given the Hungarian authorship of the book, there is an entire section devoted to the rather awkwardly titled “The Integration of Hungary to the Global World Economy”.³ For the comparativist scholars, this book will provide useful material given the range of countries covered by the text.

From a methodological perspective, there is an attempt to incorporate a number of approaches ranging from political economy to management studies. This provides a much broader flavour to the subject. It also overcomes some of the more common criticisms leveled by non-economists at the more simplistic models previously applied to the diverse region of Central and East Europe.

However, the theorist or reader seeking a coherent debate about the impact of increasing economic interdependence, may be disappointed since the theoretical starting points of the chapters are based somewhat on conventional wisdom (the merits and demerits of increasing economic interdependence). Indeed, with the most cynical of interpretations, it is arguable that we have at best a collection of case studies based around established open economy micro- and macroeconomic theories. In this sense, the contribution of this text is that it increases the amount of data collected on the issue.

On a regional level, the text could prove to be useful because it focuses on transition economies, and in particular the need to embed these emerging social market economies in a broader international economic order.

Also, the editors make a play for originality when they argue, partially correctly, that the approach taken by the papers in this book is what Csaba terms a “bottom-up” rather than the “top-down” approach used by international organizations and a range of scholars. By “bottom-up” the authors are suggesting that by highlighting the individual country or corporate perspective, they can emphasize “[the] search for answers from the point of view of price takers, not from the point of view of price makers or regulators”.⁴

³ This title betrays a certain incoherence in the globalisation debate.

⁴ Bara and Csaba (2000) p. 398.

This focus on micro- or “bottom-up” approaches has been demonstrated in sound empirical fashion by Dallago’s chapter on Fiat. Soos’ comparison of eight transition economies and De Sousa and Szalavetz’s chapters on the relationships between multinational firms and Hungarian enterprises allow Csaba to argue in conclusion that “[I]n central and eastern Europe small, rather than large countries have proved to be the true success stories. This is explained to a great extent by changes in technology, capital and information flows, making scale economies less important, while rendering both corporate and country boundaries relative.”⁵

There are few unexpected findings from the chapters assembled. The authors argue that there are eight main conclusions from the work. First, the role of technology and the “new economy” is not confined to the US. Second, institutions and policies matter, independent of the historical or geo-political context. Third, small economies need to be even more open to the world economy than they currently are. Fourth, firms operating in small economies are successful not by virtue of traditional scale economies but by the development of technology driven networks. Fifth, “globalisation” is not about extermination of the nation state – forces for homogenization are not present empirically. Sixth, transition economies’ problems are similar to those of small non-transition economies suggesting that the process of economic reform underway and already entrenched in these economies is having a positive impact. Seven, devolution and decentralization should be key features of the response to increasing economic interdependence. Overly bureaucratic structures do not lend themselves to flexible responses. Lastly, “globalisation” enhances the possibility of making a relatively small nation viable by encouraging increased trade and investment which, in turn, allows them to develop niches. This last well-worn conclusion that specialization based on comparative advantage (not natural comparative advantage but a broader definition) is hardly path breaking news for small economies. Back to the introductory textbook then.

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⁵ *Ibid.*, p. 405.