

## **The „Eastern Wall” problem**

*European Union's support scheme requires a reform*

**Looking at all of the local governments, the number and the type of the projects which they can be apply for, then we see that the chance that on micro-region levels the projects for which there is need really come true, is not bigger than the probability of the lottery fiver. The free competition system increases this disproportion of the planning system until the extremities. This requires a fast change because of the areas coming down.**

In the frame of the European Union's eastern enlargement in 2004 ten, in 2007 two new members joined the community, and in terms of their economic development, their GDP they are the most backward countries for the community. Merely Malta, Cyprus, Slovenia, Czech Republic, Estonia are relatively in a favorable position. His fast economic increase in a short time may here enumerate Slovakia. The admission of new members means the most backward members' on countries' level merely, but on the regions' level as well. The 25 most backward regions (NUTS II.) are all in Romania, in Bulgaria, in Hungary and in Poland, but one can be found in Slovakia too. The ten most backward regions' GDP is less than 30 % of EU27's average. This has already become a separate category inside EU regarding the economic development. Grzegorz Gorzelak, the well-known Polish geographer calls this area “the eastern wall”. The 30 percentile doorstep is merely shocking, but if we compare it to the average of the EU15 before the extension - then the value is only 24-25 percentages.

Without questioning the European Union's common achievements, the common he politics, the common legal system, the *acquis communautaire*-t, it's worth to think through whether the European Union's support scheme and its legal framework are suitable for the complex treatment of the problems which can be found in the area?

*The increase of the closing up and the regional differences*

The first question that arises is : what does the European Union see from Brussels? What is the actual cohesive aim of the European Union? Second question: whether the competition system currently applied proves to be capable for the realisation of complex development strategies? While the third question is whether the public procurement rules applied currently are efficient properly, are the regions fit for his alteration or the increase of the supply side effects concerned?

Onto the first question there is a relatively simple answer. The European Union is actually interested in his member states' closing up. Hungary's or Portugal's closing up is easier to communicate, than that of Fehérgyarmat, Csengersima, or Carei, Iasi. EU is interested in the convergence of the national data and is relatively indifferent towards the regional differences inside the countries. From the point of view of the relatively newly joined countries, like Hungary's it would be mistaken to conceal that Portugal and Ireland paid the price of their fast closing up with the increase the regional differences.

In Portugal, Ireland and Greece in the 90s not only most of the Union's support, but the multitude of other market impulsions were focusing on the big cities, especially the capitals. The metropolitan regions' weight and their developmental dynamics were increased by the concentrated financial and the administrative services, the business services, the development of the higher education, the air transport as well. In this process the globally observable tendency that the accomplished profit is out of proportion higher than the wage paid by the companies plays a very important role. As the regional statistics keep a record of these in the corporate centers' regions in the mentioned countries – in Hungary as well as in Portugal and in Ireland – the capitals increase their weight unambiguously.

It would be possible to draw up the picture a little bit more mildly, but in this case it is unnecessary, while these centralization tendencies with their multitudinous and their magnitude overwrite the effects of the European Union's supports aiming regional development and regional equalization.

*The aim of the support is not spending money*

Hungary cannot follow this way, although the temptation is exceptionally big! It is true, that the Hungarian state, the Hungarian welfare system appears overdeveloped compared to the country's economic performance, we would prevent all decision maker from the search of the extremely liberal or marketplace solutions in connection with an administrative or a state budget reform. The free-market mechanisms – see the Great Britain of the 80 years, or the regime-changing countries in the 90 years - increased the regional differences in a dramatic measure.

But in Hungary measure of the regional differences already in this manner is the 3rd largest one inside European Union with 27 members, following Estonia and Latvia. Lithuania, Romania and Bulgaria precede us yet regarding the increase of the regional differences. Arises so the conclusion and the painful question: how it would be possible to increase the ability of the particularly backward areas - from Bulgaria through Romania until Hungary - for absorbing and - utilizing the resources available?

In order to answer the second question it is necessary to scrutinize some crucial elements of the competition system. These are the followings: the relationship of the local and regional planning and the applications; the review system of the applications.

The local and the area planning – although nowadays they are prepared on the basis of a more or less well known strategic plan methodology – are still the weak points. The elements like increasing the competitiveness of the cities, the settlements and the regions, the sustainability of developments, the financial efficiency and economy do not appear in the planning, or in the aims to be attained. It is not always clear, that the aim of these supports is not exclusively the spending of the money, but they should lay the foundations for the development and the future competitiveness.

In the ready-made plans – regional development plans and programs, integrated town-development strategies, local rural development strategies – the evaluation of the situation is good, because the present status is presented there with statistical data. This is a clear progress.

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However it can be objected, that the aim to be reached doesn't seem to be real. It is not clear from the reading of the single plans, that for the plan-makers or the customers would have any kind of clear vision, what they wanted to reach by 2015, 2020, 2030, regarding the place in the plans.

Failing of a clear and acceptable future vision that offers an opportunity to agree with, the short term strategic aims – until 2013, until 2015 – show a very mixed picture. In some places there are acceptable aims drawn up well and there are others where the most important problem indicated in the situation evaluation was copied as the aim to be achieved.

#### *Expensive but ineffective scene elements*

The aim to be achieved –the “population - keeping ability”, the reduction of unemployment, the increase of taxable incomes – is already clear, but the strategy driving there is not. Maybe the most typical example in Central Europe is, that the cities and settlements where the employment and income indicators are modest, do not concentrate their sources to create new workplaces or to urge new investments – instead they create expensive and in most cases useless, but spectacular investments.

However it might improve the ambiance of the inhabitants if the main square or the church are renewed, some streets get wall ornament and the local public transport improves. See the example of Miskolc, Hajdúböszörmény, Warsaw or Szeged.

But this would be acceptable as a sole development aim only if there is suitable tourism attractiveness, like in Hajdúszoboszló, Gyula or Karlovy Vary, and relatively many people can live on the tourism. But a city's main square is renewed vainly; this does not create any new workplace. Though it may improve the general condition of the elder and middle-aged generation living there already, but the young people consider more the job opportunities, or the available incomes in place. AUDI, Bosch, Mercedes call for the career starters, the young skilled workers, intellectuals, but the wall ornament of the main square does not.

### *Applications for everything*

The problems of the local planning arise as well in relation of the financing. In an optimal case the financing of projects with strategic aims can be realized in 3 different forms: from own budget, on a business basis and from a possible state or community support. Obligatory municipal tasks without business income – for example the building of schoolhouses, physician's offices – should be realized on the basis of own budget. On a business basis – but not excluding the community support – it would be necessary to realize waste management, water management, and public transport projects entailing the fee deposit for example. It would be necessary to prepare important road-building, infrastructure projects, investments increasing the competitiveness but not bringing any fee - with community support.

The financing problem actually is that local and the regional characters have no own investment sources which could be used without barriers. Thus they wish to finance their investments in all cases from competition money. The Union's organisations responsible for the use of supports and the directing authorities invite applications for all areas perceiving the wide-ranging social claims for that. The central source allocation like this is exceptionally crumbled, and misses all kinds of serious priority. Applicants apply for all sources that may be applied, even when they are incurring high transaction costs. In this manner – despite of the considerable sources - the disintegration is one of the principal features of the system after all. The consequence is that there is not a single area on national level, where the realized projects would attain that critical mass through the union supports, onto which we could say, that the given area, for example public road network has been put in order.

There are realized projects, but the feeling that something would have changed in a merit through these – that is still missing!

### *The necessary projects and the lottery fiver*

On a local level, looking at all of the local governments, the number and the type of the projects which they can be apply for, then we see that the chance that

on micro-region levels the projects for which there is need really come true, is not bigger than the probability of the lottery fiver. The free competition system increases this disproportion of the planning system until the extremities. One single element, the application documentation and its quality decide about the awarding of the investment sources. There is nothing beside it: no any differentiating source allocation based on regional, or on micro-region development plans, that would drive the use of union sources towards the real needs.

In the case of the third question we have to accept the critics on the domestic practices drafted by the Hungarian Competition Authority (Versenyhivatal), State Audit Office (Állami Számvevőszék) or even Transparency International, when they say that the public procurements are too expensive without any sense. Regarding the public procurements, it would be necessary to consider not only the cost effectiveness, but also the maximizing the long-term effects of the supports in the supported regions.

Beside budgetary bars, the increase effects are over in short term if we think only of the demanding side. In order to change the supply side, that is promoting the development of the given region's economy, it would be necessary to take into account, that the local enterprises in many cases cannot compete on open public procurement with competitors arriving from more advanced countries and regions, as far as capital power, references, or available technologies are concerned.

It would be necessary to make it possible in the union public procurement procedures, that in regions or micro-regions which are in the most disadvantageous situation at least a part of the projects should be announced by exclusive public procurement procedures for the local enterprises – at least if we seriously want to give them favorable position.

For example, in Elek, a small town in Békés County, despite the high unemployment rate, the enterprise that employed local employees did win neither the building of drainage, nor that of the cycle tracks. So if with the union supports we really want to help the areas which are in the most disadvantageous situation, then on all those areas where local capacity is available, there would be need for the application of public procurement rules preferring the local enterprises. Although it is a community task, but common Hungarian, Romanian, Polish, Slovak, indeed Baltic interest as well.

Otherwise the regional differences are growing in a measure never seen before, and we do not break through the “Eastern wall”, however there is an urging need for that. Instead of regional closing up we may observe practically the total bursting apart of the area, with all of its social, economic, welfare and political consequences.