

Further development of regional management system in Hungary

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Summary

“Regional management system” is the part of economic management system, and opposite pair of “sectorial management system”. Sectorial and regional management system combines the two characteristic types of management relations (vertical, horizontal) in different ratios.

Directive planned economic management applies mostly vertical elements, while social regulation based on market conditions, is closer to the “ideological” horizontal model. Regional management model of the present includes more vertical elements, than it is going to be needed in the future by the general system of conditions of economic management. This provides wide possibility for the modernization of the operating model.

Management tasks are classified according to spatial levels (regional units, systems) by “horizontal” model of regional management. Management relations with higher level are limited to the necessary minimum rate. By this, higher levels are eased of the burden of most part of decisions, the effectiveness of economic management increases, and direct connections are created between the society and economy on regional levels.

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Before the reform of economic mechanism (1968), interaction of direct management was limited among organizational (institutional) units of the economy in Hungary. Threads of relations among enterprises, institutions and population —considering partly the economy at that time, but mainly the development activity— first ran to central planning, then were reflected back —after having been subject of several distorting factors— to regional levels. Work incomes produced direct regional relation between production and a part of personal consumption in this management system as well. But this relation could not spread out for instance to final consumption for collective needs and to their sources. Besides this, it was also mechanical, since population of each region and their representing organizations had not any interest in increasing effectiveness of production on the given regions, and this —with a view to raising work incomes— could not be influenced by them anyway. Regional councils had the interest in establishing investments which would increase local employment, but these actions were carried out with the assistance of central planning.

1968 reform of economic management drew significant changes into the relation of intersectoral and regional management systems. Role of direct division of labour increased and that of central management lessened in the relations with each other of productive enterprises. However, it was also the manifestation of growth of regional type connecting, and managing elements—in the economic management system as a whole—that relation between development of production and infrastructure became more direct, regional councils got a increasing share of locally realized social net receipts.

1. Typical connection trends

When drafting a regional management model type, we start out from the fact that division of labour and market relations between certain goods and income owners are called *horizontal*, while system of relations among individuals, economic organizations and the entire national economy—from more simple social units to those more complex—are called *vertical* relations. The first approach prompts such a consequence that horizontal social regulation creates regional management system in contradiction to vertical (regulating) relations representing intersectoral management.

In the case of horizontal regulation system, it is assumed that each enterprise, institution has its maximum autonomy, operates economically, it is able to renew continuously its socially accepted activity constantly complying with external conditions and this way it is an autonomous unit of regional division of labour as well. Its vertical relations are essentially unidirectional and its obligations for payment of taxes tie it to the centre. For the renewal of its productive and servicing activities in ever changing conditions, for solving necessary innovation tasks needed for adapting market conditions as well as joining in social division of labour continuously, such a unit can get support from its direct regional surroundings. Between economic organization (enterprise, etc.) as well as "local" society and its organization (public services), a direct connection of interest develops in maintaining, increasing income-making ability, and in creating conditions which are needed to do that.

In the point of view of employing direct regional management system, it is also an important conditions that real market relations should prove to be effectual in the operating sphere of economic organizations, so production, etc. factors and services (transportation) be available for enterprises, institutions for compensation on an expenditure rational basis. If we regard as a different group of conditions of regional type management that there should be a direct relation on regional level between production and its system of conditions in a wider scope, like development of infrastructure, elimination and prevention of essential environmental harms, then we create a special managerial movement sphere. In other words, this specification leads to the fact that regional (horizontal) management becomes criterium of the dual type organization of individuals mentioned above, namely, direct regional linking of organization of place of employment (enterprise, group of enterprises, production sphere) to residential integration of individuals (family, residential community, housing estate, servicing sphere). Basic element of further development of regional management system is to establish this new movement sphere.

In such a management system, where vertical relations are dominant, in other words in respect to all essential elements, the centre is enclosed among enterprises, institutions and individuals, necessarily sectorial character gets the emphasis. This kind of regional management is too rigid, it can not adjust itself to regional conditions and does not utilize

local reserves for improving effectiveness and for further development of social conditions. But at the same time it is capable to bring about —with direct interference— substantial changes in ratios among productive forces of larger areas, however it is also carrying voluntarism and the danger of deterioration in economic effectiveness. It is capable as well to satisfy political demands arising for the moderation of regional differences in living standards and living circumstances, without any regard to opportunities originating from regional location of production and to objective, reasonable degree of distribution based on work.

Horizontal management elements get a stressed role in decentralized economic management system, the regional management model can be operated by elements being in accordance with the substance of the system. This type, beside higher economic level, comes to the front increasingly in the period of changing to intensive development path, also because it is suitable to utilize regional reserves of productivity, increase the activity of population and by these, regional development affects back on the merits of economic development.

2. Main features of present regional management

As an apparent, practical feature of the operating model can be considered that regional development management of directly productive branches as well as infrastructure are separated from each other. This model was historically drawn up during the early period of planned economy, and it was functioning in its most consequented form in the scope of directive planned economy. But it still has the particularity of handling different sides and scopes of the reproduction process separately on regional levels. Because of this, there are also significant differences in the relation of plan objectives and the means of realization (which is an immanent feature of economic type plans) between the spheres mentioned above.

Regional development chapter of medium range national economic plans —from among material branches— contains first of all the main objectives of regional location of industry and agriculture. To these —as direct means of realization— central base as well as bases in a limited rate are attached and can be regarded as vertical elements of management. But the general economic regulation system has a much more significant effect on regional location of production (independently of whether it helps or not in implementing tasks of regional development), which is, at the same tie, the means of market regulation, so that of horizontal management as well. The source of realization comes mainly from enterprises.

There are a specific situations in the course of regional objectives of development of productive infrastructure. These appear in respective to "branch" plan chapters; partly directing to certain regions or settlement categories, partly without regional distribution. As main conditions of implementation, there are direct means of planning behind these objectives; for instance development and modernization of the network of railway system, regional public utility systems of water, etc., lumpsum investments which get the sources from, the central budget. So in this scope, sectorial (vertical) feature of management is easy to be recognized, not excluding the realization of certain development task types by utilizing enterprise, etc. means and by responding directly to local demands.

In the chapter of regional development of national economic plans, financial background relating to objectives in connection with development of public infrastructure, is

given partly by the means of population and enterprises, partly by redistributed budgetary means on national level; therefore this latter embodies vertical type management.

3. Main content terms of "horizontal" type model

Regional management model based on horizontal connections, does not interpret economic relations on the ground of classical components of economic system (enterprises, households, etc.), but it works with actual spatial subsystems which come into existence by the means of direct, horizontal linking of organization of the population in compliance with work places (division of labour) and residences (reproduction). The new dimension is built together with this in the model of management.

This type of regional management system is qualified to regulate connections of real, spatial units which are regarded as socio-economic systems. Starting from this, all requirements arising towards the enterprise (economic autonomy, continuous renewal of productive activity, adjustment to conditions of surroundings, etc.), can be raised towards spatial systems as well. Regional type (horizontal) relations of productive organizations (with local councils, production's system of conditions in a wider scope, like infrastructure, etc.) turn into relations being mainly inside the system. Thus, a model operating with such "real units", eliminates the insufficiency of vertical management schema which separates different sides of the reproduction process and creates connections again among them (if it ever does) only through the higher level "coordinating" centre. Like in the case of enterprises, where economic autonomy is accompanied by the fact that they cover their inputs by using their outputs, regional economic systems also do self-account. But the difference is that in the case of the latter, both inputs and outputs are interpreted in a wider scope, and —independently from the location in reproduction— should be applied to all organizations and institutes. So, for instance in a regional system not only the cost of production proves to be input, but the operation, aging, depreciation, amortization, etc. of health, educational and other establishments (living-houses) as well.

Reproduction of regional systems means the renewal of their elements. Each spatial system consists of natural surroundings, a group of instrumental elements (infrastructure), the society living in it, and finally the economy operating as combination of the formers. (From this point of view, only such regional unit can be regarded as system, which integrates different sides of the reproduction process, like for example material production and reproduction of the labour force. Consequently a settlement which serves only residential, in other words labour force reproduction function, can not be regarded as a regional system being able to be handled by the management system.) Society of spatial system has fundamental interest in the effectiveness of economy, since it has not only the influence on personal incomes, but it is also a preconditions of replacement of infrastructure having been used up, the operation, as well as enlargement of existing ones, and precondition of other economic activities. In the case of loss-making management, there is not any source, or it arises only in part, for the replacement of means of production and infrastructure having been used up; when there is a long lasting loss-making process, economy of the system declines, its instrumental elements become consumed, its infrastructure becomes exhausted, and these are associated with the termination of productive and servicing employment and with gradual "loosing" of its society.

Productive organizations have interest in that the society of the system should represent "intellectual infrastructure" needed for the innovation processes and should get public

support in order to develop production. Non-productive institutions are also interested in the continuation of social demand already existing towards their services, moreover in developing adequate sources at productive organizations, in order to systematical renewal and continuous modernization of their activity. Spatial system is also the unit of regional division of labour. The balance of external output and input is precondition of the reproduction of elements of the system, as well as that of the whole system, even output surplus is needed to accomplish obligations to a higher system (for instance: taxation).

Such a rearrangement of these management relations of the present, would significantly modify methods for solving regulation and planning tasks. Employment of the model would cause the most important changes in the field of internal relations of regional economic systems. "Self-supporting" feature of the system can be realized if financement of economic activities (maintenance and development) included in the system, is carried out by utilizing its internal sources. Because of this, certain vertical threads of management which have influence indirectly —through the planning centre, or through any "external" forum— on economic activities included in the system, should be enhanced, and economic spheres (for instance: production and services) detached formerly, should be reconnected. What it decesively means is that —if we stay inside the economy— incomes made on material production, should be redirected within the system in order to finance social services, infrastructure, etc. belonging to them. This may have different sources; for instance: the solution already mentioned that certain part of social net income realized at productive organizations, is redistributed directly for regional councils by local taxation.

Regional economic systems to be employed in the model, have dual directions —as regional units— in their external relations. On the one hand, these are hierarchic relations, on the other hand relations of division of labour. Hierarchic relations are realized with regional unit of higher degree, since there must be contribution to financing economic (social) activities "not included in the system", and development and operation of those activities are not carried out on the given level.

Hierarchic relations are expressed in the fact that regional system of lower degree let regional system of higher level have a part of its sources and because of this, population can utilize services provided by the latter. The relation —since it have not market bases— needs normative regulation depending on distribution of servicing functions between systems of lower and higher degree. This relation among regional units can appear at the same time in the form of relation of distribution of labour as well, if the service is provided by system specialized to do that, and this service gets the feature of commodities.

However, such features of spatial economic systems should be taken into account, because of which maybe transitional solutions are needed instead of ideological management relations. Historical development, different natural and other environmental fundamentals, may cause significant differences in main features of certain regional systems. In the point of view of management, the differences already developed and determined by objective conditions, in productivity, as well as in income-making ability, are the most determinative. In order to bring "starting chances" originating in the former facts, to the same level the operation of equalising mechanisms is needed. When a system representing a lower productivity level —compared to the others—, is introduced to the logic of horizontal model, it can function permanently only by endangering of increase, "exhaustion" of its elements. The loss is originated in the fact that its financial inputs — based on real relations of systems of higher productivity— are recognised only partially, so with regard to replacement, enlargement of factors of production used up, it gets in disadvantageous position compared to other systems.

The relatively low productivity level can be attributed to different reasons. The most primarily among them is, if natural fundamentals being indispensable elements of reproduction process, are unfavourable, especially when those are really important for the economy of the system (for instance: regions with agricultural profile, mining district, etc. where large production inputs are needed on account of natural conditions). The model needs as well as makes possible dually directed management of natural factors. If there is a nationwide interest in the operation of a regional system having disadvantageous natural fundamentals (for continuing production as well as raw material production), the given region may raise a claim to a higher economic level (e.g. state budget) for compensating its losses coming from its bad fundamentals. However, in systems where, as the result of good natural fundamentals, extra incomes rise, withdrawal of those is reasonable and can be realized through different channels.

Low productivity level of a certain spatial system may in addition originate in particularities of historical development of productive forces, in dispreferences applied previously in economic policy, etc., but in inside, subjective errors as well. In the case of the former also a higher level support can have the role of "equalizing mechanism", but consequences of the latter, (thus errors in local decisions) should be taken by the society of the given region.

Vertical, external relations of regional economic system which can appear schematically also in the form of input (higher level support) and output (incomes given to a higher level), are carried out through different threads in the practice. Namely, it is reasonable that organizations of material production realizing national income, should keep their direct connection with the centre (first of all with central budget) and should pay there a part of social net income to serve as financement of socio-economic activities which were organized outside of the given system, and state supports of production from higher level, should go directly to productive organizations.

4. "Spatial" levels of regional economic management; reasons for modernization of model

Each socio-economic process exists in a regional scope characterising it; so these processes limit regional management units corresponding to their contents. Economic activities (like production of local and national importance, different spheres of labour force reproduction, low, medium and high level services of population, etc.) have the linkage to a variety of spatial order of magnitudes. But can not be drawn the conclusion from this that there must be created as many regional management levels, as many regional unit type —different according to the content— exist. Neither is there a need for that because in general, socio-economic activities are organized as concentrated in space; are characterized by regional accumulation; different contents of activities regionally overlap each other. Therefore, such regional units are reasonable to be attached to regional economic management —in a varying number based on the size of the country— include groups of socio-economic processes to be regulated and their zones overlapping each other.

Operation and development of infrastructure is especially sensitive for spatial interdependences. The establishment and branch group mentioned above, determines the effectiveness of reproduction process —inside its scopes— not in general, but by material production, by concrete spatial connections of establishments, services needed in a wider scope for performing it, and by bottlenecks created as the result of insufficiency in quality

and quantity of infrastructure. Revealing and terminating these insufficiencies become a direct, realizable public interest —arising on its operating grounds—, so much as "local" society has the right for elaborating economic preferences, and has its own sources for realizing them. It becomes in addition a motive power of increase of effectiveness as much as income, supply (source making) relations of the area are in direct connection with work performances achieved in the given region.

The new regional management model puts the above relations into the center, and by this, it gradually promotes one important effort of long term planning, namely, not only stressed, but also the effective —being spatially in interaction with the reproduction process— development of certain sectors of the infrastructure including the infrastructure of population.

The row of arguments in favour of the application, also includes the fact that regional development tasks also go through changes in quality, when the economy moves to new path in growth. Rearrangement of ratios of productive forces among larger areas, as a main task, is replaced by the elimination of imbalances experienced on the level of smaller areas, and by continuous maintenance of dynamic spatial balance —already developed— among natural surroundings, infrastructure, economy and society. The maintenance of employment (on adequate spatial level) has a stressed importance among the latter, in which, besides state support also expected, it is reasonable in the future to utilize internal resources of certain areas in a greater extend. Besides these, it is also important in the future that social conditions —more decentralized in space— of the innovation process, should be established gradually. First of all personal and organizational interest, in that society of the given region should keep pace with requirements arising toward modernization of productive forces and lifestyles, and spheres should be created —affecting this— for organizing individual and group (organization) efforts in order to establish its financial background and to its continuous stimulation. This may also be regarded as a special type of spatial balance, namely, such incorporation of economy to social environment is a guaranty for the regional system that it can be adjusted to social (regional) division of labour.