

## **2.The Possibilities in the Economic Development of the Local Governments**

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*The system of Hungarian local governments went through changes several times. Municipalities treated the changes of both the systems and the environmental factors with flexibility. The key of the adaptability is the local economic development. Therefore it is a crucial question if the local community can have an influence in this field and in what measure. In my opinion the local community has effective tools, which should be used efficiently. The goal of the municipal acts is to adapt to the conditions of the different circumstances by changing one or more environmental factors. The PESTEL analysis covers the environmental influencing factors. Because the Hungarian municipalities have many different roles they also have many tool-kits. These can either strengthen or weaken each other's influences. As the first step of my research I analyze relationship between the identified roles and the required environmental factors by introducing real cases. The effects-pattern of the combinations of the used tools is variable too. It can be surveyed with the tool-effect matrix. For the moment it's only a qualitative sign, but the goal of research to find indicators to each cell, row and column which can quantitatively describe the status of the system and its changes.*

*Keywords: adapting, environmental factors, PESTEL analysis, municipal roles, tool-effects matrix*

### **1. Introduction**

The Hungarian local government system in few decades went through multiple changes. The settlements are handled the system and also the acting environmental changes in a flexible way. I have chosen this adaption facility for my topic. After determination of the basic goal of the economy development (independent from settlements) I examined for environmental factors and the opportunity to group the available devices.

After that I analysed the group of devices' effects on the environmental factors in Hungarian examples. Built upon the result I'm going to summarize the devices and their effects in the effect of devices matrix. After featuring the logical connection-system I'm going to review the index-system, which is needed to be worked out and make it applicable by more research. Finally I review the application and other research opportunities.

### **2. Literature review**

The goal of the local economic politics is boosting the economy. But going through the seemingly simple sentence some questions are coming up. The first is what "boosting the

economy” means? The second is, if this goal is really in itself or it would only be defined in a wider correspondence?

In the related literature we can find a varied approach. Syrett (1995) separates boosting the economy and the conception of the local economy’s initiative. The prior means the general developing process and the latter is to create concerns. Éva G. Fekete’s (2005) thinks about developing the country, which is defined by interfering with the way of the local changes. According to Cecília Mezei (2006), developing is an intervention to improve quality, where the final goal is increase the population’s living standard. In my opinion the last definition could be expanded with the following, the development’s final goal is not just to increase the living standard, but in some cases to sustain, or just slowing down the decrease. Bartik (1995) and Čapkova (2005) prefer the increase of the living standard, according to them it could be acquired by developing concerns and creating new jobs.

I prefer to interpret the previous approaches altogether: the economy development effecting the environment, and it’s final goal is to increase the local living standards.

The next question is whether the local self-government has the necessary devices to pull substantive effect on the development of the local economy. In a simple way: are there any local economy improvements or the improvement is only a consequence of a regional process. As Gábor Péteri (1994) see it, the local governments doesn’t have any vital influence on the economical processes, despite of this they attempt to intervene. Faragó (2004) judges the options to intervene limited, and only approves to do so if the market malfunctions.

In the article, according to the previous I look answer for what devices has the local self government, and how they use them to affect their environment on behalf of improving the local development of economy and hereby offer opportunity to an increased living standard.

### **3. Environmental factors effecting the local governments**

The local government’s work can’t confine oneself to simple economic representation, but at the same time it can’t go without that. The local politics of economy’s goal is to keep and improve the local quality of life, where keeping the settlement’s traditions and values, sustaining and if possible enlarging the high quality of the settlement’s services are essential. Among the always changing terms those settlements could be successful, which are able to adapt to the environment. This adaptation is influencing the environmental factors or the effect of these factors to the settlements. There is a well-known analytic method from the economical life, called PESTEL (Political, Economical, Social, Technological, Economical,

Legal) which helps traversing the environmental factors. The analysis gives a full picture of the influential environmental factor, but using it at local governments is naturally slightly different from the profit-oriented sector. The system could also be able to plan, and with its help the wanted developmental states are more precisely defined. The most important part of the development is the local economy, and the question is how can the local community and its chosen leaders effect this area. In my opinion the local communities have effective devices, and if they can use them correctly, serious results could be reached.

On the basis of my previous thoughts I'm going to summarize them as he following:

1. The aim of the local governments is to adapt to the environmental terms by changing one or more environmental factors.
2. The effective environmental factors are covered by the range of the PESTEL analysis.
3. The wanted economic developmental goal and the results of the development could exactly be identifiable by the PESTEL analysis.
4. Because of the diversified roles of the Hungarian local governments they are equally able to enhance or weaken each other.
5. By using the devices systemically, the development by the previously fixed objectives is available for the affected economy of the settlement.

#### **4. Functions and devices**

First of all let's survey the resources which can be taken into the local governments! Because of the diversified roles of the Hungarian local governments they consist of different systems of devices which are equally able to enhance or weaken each other. During my study I found seven well separated factors. These are the political, proprietary, norm-maker, magisterial, marketing, employing, communication roles. Every function has different devices that are why the connecting devices' reach are different. Let's see the several functions and the available devices what belongs to them!

*The first function is the political:* The voters empower the corporation of deputy with power to manage the local matters. This role is the most important, when the local government prepares different strategies (IVS, -developmental strategies, fortune management, education planning, etc.) which influence the settlement's way of life. The agreements with other settlements (twin-city agreements, partnerships contracts, leader-community membership, EGTC institution - European Grouping for Territorial Cooperation)

are also belongs here. We can't forget about lobbying, which is an important part of the economy development, and keeping in touch with the local communities.

*The proprietorial role* naturally follow the previous, handling the wealth of community belongs to managing public matters. These kinds of tasks are managing the local government's properties, like maintenance and develop the real estates.

The norm-maker function also can be deduced from the public authority. The local government can or in some case it has to create measures. With this right they can make statutes about local taxes, keeping animals or building acts, etc. This could directly affect the local economy's work and in an optimal case the growth.

The *magisterial functions* are also involving some kind of price-authorities like water or wastewater, heating and public-meal prices.

The local government is also a *supplier* and a *procurer*, so it can be an active partner on the local field and a procurer, a supplier or a rival for the local *concerns*.

In most of the settlements, the biggest *employer* is the self-government, that's why it's an active partner in the local labour market.

Last but not least, the local government is a *communicator*. It also communicates with the citizens and the guests and investors who might be a partner in the future.

Using the colligated reviewed system of devices can influence the local economy's work. The different devices can weaken or fully extinguish each other if they were used inconsequently. The first step in my research is to analyse with presenting concrete cases the identified roles and the reached economic factors. I'm going to demonstrate Hungarian examples where the system of devices influencing together.

We saw the using of outbound system of devices in the fight of lobbies at the underground 4 project in Budapest. The result is mixed, and affects nearly all the environmental factors, as it comes true by similar reasons in some infrastructural developments.

Civilians for Budakeszi's Development (CIBUFE) are a better example for *using inside political system of devices* to hold together the local intellectual fund. During the years this community made a development of settlement, what was accepted by all political factions by the year of 2010. By a subsequent upon this document, the organization of Buda-környéki Natúrpark had started, and the idea of Budakeszi Gyerekköztársaság gets under way again. A cooperation was also started by Újfehértó 2 years ago which overarched the border (CBC - Cross Border Community). The program not only concern the local governments, but it also build upon the cooperation with civilian organizations.

For using the *norm-maker* function a simple example is to dismiss some local taxes, what brings significant boost in few smaller settlements (Komlóska, Megyer). Several businesses established premises to validate the allowances. In many places the local government took responsibility to refund taxes particularly. This “mini offshore” is rather some kind of tax-market gap than a comprehensive economic boost, but without doubt it’s an effective method to get more resources.

Another example for using settlement development devices could be the taxing of inbuilt, non agricultural parcel. This method used by several settlements around Budapest is boosting the effective economical usage by making the investment into estates more expensive. This way concern, which pay local taxes (industrial tax, building tax, communal tax), settle in and provide more workplaces. By shaping the local taxes statutes this way could improve the local economy. On the other hand I have to add, the measure could backfire among the condition of the economic crisis. In some cases the local government could reduce resources from owners without enough funds or force them to realize. In further friendlier environment this makes impossible for small and mid-sized concerns to strengthen and invest in a given settlement. For effective combination of devices Inárcs is a good example, where the settlement’s government decided about the requalification (*norm-maker function*), the building of public services, and about selling lands owned by local government (*proprietary function*) to industrial and marketing purposes (market function). Estimated lands were sold with great profit, and settled concerns provided the long term operation of the settlement. Land and estate development following the PPP (Public Private Partnership) design produced similar results with mixed efficiency (swimming school program, heating and electrical infrastructure development). These programs in most cases worsen the balance (swimming school program: Bátonyterenye, Cegléd, heating: Ózd, Kazincbarcika). The bad results are not the PPP’s fault, rather than unprofitable contracts and unbalanced profit sharing and risk sharing on behalf of political pressure. That’s why multiple settlements (Szob, Gyál, Budakeszi) backed out from the construction. There are only more or less legal examples of the usage of *magisterial function*, where investments were discouraged by the local government until a beneficial agreement for the settlement born. In my opinion this system of device is meant to be used to enforce the local measures. These measures create also commitments and rights, enforcing these rules produces calculable investment environment, which boosts the inclination for investment in the settlement. Needles to explain the *procurer* function’s positive effect on the local economy, despite of this assigning the local concerns are expressly difficult. These reasons are consequence of the local economy’s limits of

competitiveness: because of the size of a country wide concern's economy is more competitive than a local concern's it can make better offers. Despite of this there are examples of winning competitions by local concerns (Szikszó). There are no obstacles in acquiring food from local manufacturers.

The *communication* function's local economy boost effect is shown by different settlement marketing solutions, which shows different success. Positive examples are Sümeg, and "institution of Várkapitány" but in this case it's more like a touristic catch than a settlement marketing. In the vicinity of Sümeg, Megyer is like a small traditional village, which makes us remember to the blissful days, attracting tourists to the formed holiday centre. Modest success was the "Budakeszi Gyerekköztársaság", which was a pioneer experiment at the beginning. Despite it nearly devastated by the political fight around it, a few minor successes emerged from it (Hungary's only child bookstore works here with great success). Szentendre's trial as becoming the town of women was a failure because the lack of money and will (for example wider parking places for women was rather a marketing gag than a settlement shaping power).

Recently more and more settlements realized that complex and overall solutions to develop the settlements economy are performing better than single separated ideas. These programs look further than the "Integrált Városfejlesztési Stratégia" (Integrated Settlement Development Strategy), which was created by obligation of measures. For example: Nagyvázsony (Kinizsi program), Süllysáp (Települési Értékközpont Rendszer), Újfehértó (Innovatív Foglalkoztatás Támogató Program), Budakeszi (CIBUFE – Települési Minimum Program).

## 5. The effect of devices matrix

As we could see in practise of the local economy development, obvious matching of devices and area of effects are rare. The eventually or consciously evolved combination of pattern of effect is various. The effect of devices matrix helps to review this (Table 1). Each line of the matrix represents devices what belongs to the local government's functions, and we can find the PESTEL analysis research area in the columns. An "x" in a cell means that through the selected line the government can affect the area by its stock of devices.

Table 1 The pattern of effects of the local government's system of devices

Environmental factor (effect) / Local government function (device)	Political	Economic	Social	Infrastructural	Ecological	Legal
<b>Political</b>	x	X	x	x	x	x
<b>Norm-maker</b>	-	X	x	x	x	x
<b>Proprietorial</b>	-	X	-	x	x	-
<b>Magisterial</b>	-	X	-	x	x	-
<b>Procurer</b>	-	X	-	-	-	-
<b>Employer</b>	x	X	x	-	-	-
<b>Communicator</b>	x	X	x	-	-	-

Source: author's own construction

Note: \*Founding of the system of indicators expressed by numbers.

After the qualitative analysis of correspondence, the purpose of the research is to define indicator numbers to describe each line, column and cell, further how to define the system's actual and desired states and changes expressed by numbers. In the interests of define the further direction of the research I examine the boundaries and possibilities of mathematical modelling. During the work out of the system of indexes each index has to be suited to the system of conditions (SMART - Suitable, Measurable, Accesable, Realistic, Timely). Accordingly, applied indicators have to be suitable to featuring the analysed attribute, and also measurable and available. Used data have to be actual and substantive.

Table 2 The sections of system of index (Contractions as in the text)

Environmental factor (effect) / Local governmental function (device)	Political	Economic	...	Effect-specific indicator (ESM)
<b>Political</b>	SZM <sub>PP</sub>	SZM <sub>PG</sub>	SZM <sub>PH</sub>	ESM <sub>P</sub>
<b>Norm-maker</b>	SZM <sub>NP</sub>	SZM <sub>NG</sub>	SZM <sub>NH</sub>	ESM <sub>N</sub>
...	SZM <sub>EP</sub>	SZM <sub>EG</sub>	SZM <sub>EH</sub>	ESM <sub>...</sub>
<b>Effect-specific indicator (HSM)</b>	HSM <sub>P</sub>	HSM <sub>G</sub>	HSM <sub>...</sub>	ASM <sub>I</sub> ASM <sub>N</sub>

Source: author's own construction

Table 3 The system of indexes of the settlement's development

Type	Code	Description	Note
ASM	M <sub>1</sub>	Average salary per person [Ft/person]	Indicator what shows the economic power of the population
	M <sub>2</sub>	Government income/population count x 1000 [Ft/1000person]	Index-number of the settlement's government's economic power
	M <sub>3</sub>	Number of the economical organization/ population count x 1000 [db/1000person]	Index allude to economic activity
ESM	E <sub>P1</sub>	Delegate corps (Kt.) numbers of resolutions and statutes/year [ps]	Searching the activity of the Kt., the viewpoint of the review is slightly relevant
	E <sub>M1</sub>	Material +Developmental expenditures/ population count x 1000 [Ft/1000person]	Index allude to procurer's potential of
	E <sub>M2</sub>	Material-Public works + Developmental expenditure/ population data x 1000 [Ft/1000person]	Like previous but corrected the applied public works costs
	E <sub>K1</sub>	Number of clicks on the homepage/year/ population count x 1000 [ps/1000person]	Efficiency of e-communication
	E <sub>K2</sub>	Number of newspaper circulation/year/ population count x 1000 [ps/1000person]	Intensity of the printed media using
HSM	H <sub>G1</sub>	Local industrial tax's income/ population count x 1000 [Ft/1000person]	Index number of profitability of the local economical organization
	H <sub>T1</sub>		Tax-payer's index
	H <sub>T2</sub>	Number of place-hunters/employable population x100 [%]	Employment data
	H <sub>I1</sub>		
	H <sub>Ö1</sub>	Selectively collected tight waste /all s. waste x 100 [%]	
	H <sub>Ö2</sub>	Wastewater piped by a common-canal/ Quantity of the supplied water x 100 [%]	Tensile the toxic
SZM	S <sub>PP1</sub>	Changing in the mayor's support	It could be interesting because of the authority
	S <sub>PG1</sub>	Central supports + by means of the self-government obtained tender[Ft]	Could show the lobby-power
	S <sub>PT1</sub>	Number of the local civil organizations	The local population allude to activity
	S <sub>PI1</sub>	Infrastructural investments [Ft]	The effect of the political will and willing enforcement
	S <sub>NT1</sub>	Social expenditure allude by a local decision /all working expenditure[%]	Shows the resources of social goals
	S <sub>NJ1</sub>	Number of the reviewed local statute/ all local statute x 100 [%]	Index indicator what shows the low creation and the flexibility of making lows
	S <sub>TG1</sub>	Self-government's GT's own income/ GT's all income x100 [%]	Producing income throughout bound services
	S <sub>TI1</sub>	Investment of infrastructure-development /population count x1000 [Ft/1000 person]	Infrastructural development money /1000 person
	S <sub>HG1</sub>	HIPA income/HIPA assessment x 100 [%]	Efficiency of the magisterial tax collecting
	S <sub>FT1</sub>	Number of the general-employed / number of place-hunters x 100 [%]	Efficiency of informal and social employment

Source: author's own construction

Applicable indicators can be grouped by their specific:

- Unspecific indicators (ASM): The characteristics of the local economy's condition or changes. But neither the reasons nor the influences of the changes can be identified by the help of them.



- Device-specific indicators (ESM): It shows the forthcoming changes to the given arrangements. Influences can't be identified precisely.
- Influence-specific indicators (HSM): Suitable indicator for analyzing complex arrangement systems' pattern of effects.
- Selective indicators (SZM): Indicator suitable to show individual arrangements and how they affect changes in the area of effect. The Table 2. helps understanding the system of indexes.

It would be desirable to provide a more complete system for the selective indicators, in which the researching of the ESM and HSM indicators and combining them by using appropriate mathematical formulas can help. However, I think that it is not realistic and not appropriate to develop a 100% specific indicator system.

In the third table (Table 3) I review the indicators based on the criteria system above. In the current workflow the enumeration cannot be complete or filtered, however it might be good for to show the direction of the train of thought. So far, the enumeration is similar to a structured brainstorming.

In the future, the list will be expanded, then each created indicators will be checked according to the SMART criteria system. Most of the indicators will be projected for 1000 people, in order of the comparability of the settlements. The impact of the economic development could be demonstrated by the time series analysis of the indicators.

## 6. Conclusion

In excuse of the shaped statement system the local government's device – effect matrix was made, which can be capacitated for planning and analysing. On the basis of the principled index-number system, it is possible to work out a more particular indicator table and by means of those gauges and methods necessary data are available. By the help of the indicator system the efficiency of the economic developmental action becomes measurable, and the effects of devices on each other can be researched. The planning process can be supported by modelling the changes and the departmental matrix can support several specialities (social factors, tourism and hygiene) systematic development.

Henceforth we have to detail the device system at least one layer down and improve the index-number system. With the expanded index-number system's help the synergistic and

competitive effects of the different devices, and the device's influence on the environment can be presented.

We have to make the wrought system adapted to a functional service. In this role the right device system has to be worked out for the presentation of the desired goal state and for the prognosis for the wrought measure packages' prospective effects. Further on this model can be qualified not just for developing economy but for supporting several factor's development.

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