

Sasha Tsenkova · Zorica Nedović-Budić (Editors)

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# The Urban Mosaic of Post-Socialist Europe

Space, Institutions and Policy

With 77 Figures and 25 Tables

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## 7 Spatial restructuring in post-socialist Budapest

Iván Tosics

### Introduction

This chapter concentrates on the most visible aspect of post-socialist city development -- the spatial changes and their mutual links to urban planning and policy making. The turbulent last decade of the 20<sup>th</sup> century resulted in immense transformation of the spatial structure, appearance and functioning of the Central and Eastern European cities and their different zones. From analysis of the spatial changes in Budapest, the chapter focuses on the following questions about the post-socialist period:

- What are the main forces driving urban development in Budapest?
- To what extent is Budapest moving towards being a market-oriented city and losing its characteristics from the socialist period?
- Should any of these characteristics be preserved in the new phase of development?
- What role does the public sector (urban planning and policy) play in the subsequent stages of transition, the 'management' of spatial changes and control of market processes?

The conditions of spatial processes in the transition from central planning towards a market economy are determined by political, economic and institutional factors. According to Szelényi, "... societies with different socio-economic orders will produce qualitatively different urban conditions" (Szelényi 1996, p. 290). Urban development in Hungary was for 40-45 years influenced by the socialist political model, the system of planned economy. The public sector determined land use patterns; there were significant state ownership of the land and housing stock in cities (as a consequence of confiscation); administratively determined, controlled growth of major cities; and direct state control over the financial resources of the cities and thus over the decision-making process (Hegedüs and Tosics 1996). The "camel-back" anomaly in the density gradient of Hungarian cities (Bertaud and Buckley 1997; Bertaud and Malpezzi 2003) is a direct consequence of such an institutional environment.

During the socialist period, development in Budapest was dominated by the public sector as the owner of 2/3 of the housing stock and most urban land. The public sector controlled all aspects of urban development, and decision-making was centralised at the municipal level. Consequently, the most dynamically growing areas of the city were those where public investments were concentrated, e.g., the high-density housing estates at the periphery, which were built to alleviate

housing shortages; and the high-quality housing zones in the green belt for the political and economic elites, which had been acquired through the nationalization of earlier elite districts and were developed by the government and by subsidized private investments. At the same time, the least supported or even restrained developments included the areas designated for demolition to make room for new housing estates; the publicly owned inner city areas whose stock of old buildings were deteriorating because of neglect of the confiscated or nationalized building stock and as a result of rent controls; and the transitional zone immediately outside the inner city dominated by large industry, storage, rail and other non-residential functions. Finally, private development occurred primarily in the agglomeration settlements, which grew rapidly with only a relatively low level of infrastructure provided, and which housed labour migrants from other parts of Hungary who could not move into the city because of administrative restrictions.<sup>1</sup>

According to Enyedi (1996), the principal agent of post-socialist change is the economy, with private households as the next most important factor. The main co-ordinators are the local governments. The transition to a market economy in Hungary had already begun before the communist system formally collapsed in 1989. Spatial changes preceded the political changes, as an early expression of the market orientation of the economy. The gradual move of economic policy towards the market-based system in the 1980s resulted in an upgrading of Budapest's central area by converting its inner city neighborhood into an area with international hotels and high-end retail on the first pedestrian street (Sármány and Parsons 1998), and by the construction of East-West Center, the first Budapest office complex adhering to international standards. These spatial transformations in the 1980s were complemented by the privatization of public housing initiated in 1986.

Even with this head start, it was in the period after 1989 that the most important spatial changes occurred: new shopping centers, office buildings, greenfield industrial and logistical structures, suburban and inner city housing, and urban redevelopment projects date to that period. Such developments required more fundamental change in the legal, administrative and financial systems. They were enabled by large-scale privatization in the productive sectors and in housing, by infrastructure development, and by the introduction of mortgage lending. The new investors first focused on the real estate sectors that were most in demand and least risk-prone, which in order of time were first petrol stations, then offices, retail/commercial establishments, hotels, and finally residential developments. These investments affected the spatial distribution of employment, created new patterns of commercial and service delivery and consumption, and also influenced the location and growth of the residential sector. Some of the further consequences that began to emerge were public spaces occupied by cars, an increasing disparity in the extent to which residential buildings were maintained, and social segregation evident in the shocking contrasts between the newly developed residential complexes and run-down areas of the inner city.

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<sup>1</sup> The administrative restrictions specified that only people who had already lived or worked in the capital for at least five years could apply for new public housing.

In reviewing here the determinants of the spatial changes in Budapest during the transition, the post-socialist period is divided into several stages by distinguishing among basic political decision, detailed legal regulation and new public policies.

1. *Vacuum period*, between the basic political decisions and the introduction of detailed legal regulations: the early 1990s. The period was characterized by uncontrolled development triggered by massive privatization of the economy and the housing sector, by investors' focus on getting the best position in the urban restructuring process, and by contradiction laws - for example, the *Law on Prices* allowed the owner to determine the rent level, while the *Housing Law* still had very strict limitations on rent levels.
2. *Adaptation period*, from the introduction of new legislations till the emergence of public policies: the mid- to- late 1990s. The period was characterized by the initiation of new investments and planning instruments, the fragmentation of local governments used to the developers' advantage, and reliance on the infrastructure reserves. Within this framework the municipality of Budapest started to elaborate long-term plans such as the initially 3-, later 7-year forecast of financial revenues (Pallai 2003), and the Master Plan.
3. *Adjustment period*, marked by the emergence of national and local public policies: from the late 1990s on. The period has been characterized by continued investments, more regard to public sector plans, and emerging cooperation within the public sector. The end of this period is marked by fully functional and unconstrained market processes. For example, in Budapest the end of the transition was marked by - among others - the approval of the long-term strategic development strategy. That has been further developed into a medium-term development programme, approved in 2005.

The moves from one stage to the next depended on legal, administrative and political factors, while the content of each stage and the speed of its introduction and implementation were influenced primarily by economic forces. The combination of those factors created the playing field for households and firms making decisions about location and investment that influenced the overall urban development.

## 7.1 The urban development context

### 7.1.1 Political and administrative factors

Local governments' financial strengthening and decision-making independence are probably the most important institutional changes that accompanied the establishment of a democratic multi-party parliamentary system (Tosics 2005a). The "[s]ub-national governments ... were essentially deconcentrated units (or

branch offices) of the central government and had little or no financial autonomy” (Bird et al. 1995, p. 1). By 1990 they had been replaced by self-governing units, and direct involvement of central government officers or politicians in local decision-making was no longer possible (Bennett 1998). Bird et al. (1995) suggest that the “[d]ecentralisation is ... a key dimension of the national transition from a command to a market economy. ... The total level of public sector activity must be dramatically reduced, but at the same time the new sub-national governments must be allowed to build staff and institutional capacities.”

Local financial autonomy, however, is still limited because the central government is not very keen to allow local governments to become powerful political entities. Even when local taxation has been established, its magnitude is restricted, and local governments remain strongly dependent on central transfers. This suggests that decentralisation itself is limited (see Tsenkova in this volume). Although power sharing between the national and local levels changed substantially as compared to the socialist period, the central state managed to preserve a strong influence. The establishment of independent local governments “... has been accompanied by a higher degree of centralism than was first intended ... as a consequence of the fragmentation of the local level, the weakness (absence) of an intermediate level and as a result of the desire for efficiency and expedience in the context of economic transition” (Michalski and Saraceno 2000, page 19). Local governments were, however, important players in the urban and overall transition, the rules of which were determined at the central state level. Throughout the three transition stages—vacuum, adaptation and adjustment—local governments had to establish and implement their local strategies. Large cities, especially the capitals such as Budapest, usually had more room for manoeuvre in the development of their strategies, not only because of their size, but also because in the absence of strong regions they were the only potential alternative power centres to the central state.

The post-socialist administrative structure of Budapest’s local government system, established in the 1990s (Tosics, 2005b), is based on the *Law on Local Governments*. The two-tier structure includes the municipal government, which became the owner of the public utilities and assumed the tasks related to all or large parts of the capital; and 23 district governments, which became owners of previously state-owned retail and commercial units, vacant land and public rental housing stock and which assumed all local public service functions (Bird et al. 1995). The municipality and the districts each acquired their own economic assets and taxation authority, and the right to establish their budgets independently. They share some revenues according to a special system for allocating financial resources.

The two-tier administrative structure was not very functional, since the two governments could successfully block each other’s ideas, e.g., the municipality through its zoning authority and the district through its right to issue building permissions. The 1994 modification of the *Law on Local Governments* gave the municipal level somewhat more rights, especially in strategic planning issues with relevance for the whole city. None of the laws, however, dealt with regional government functions, or with the competencies related to urban development in large urban agglomerations like Budapest. In the course of the 1990s smaller settle-

ments were favoured in the allocation of central government budget resources. That bias contributed to the fast development of the suburban area around Budapest, as local governments in Pest County completed major infrastructure development projects (gas, water lines, sewage, gymnasium, road construction, telephone lines). The county governments sought local economic development attractive to entrepreneurs, developers of shopping centres and industrial sites, and middle-class population. Settlements around Budapest used their increased power to re-zone large tracts in their jurisdictions from agricultural to residential, industrial or commercial use. They also took advantage of the tax authority given them by the *Law on Local Governments* to attract high-income households and economic investments by means of low local taxes.

In this very fragmented system the importance of the sub-national level was acknowledged in 1996 with the *Act XXI on Spatial Planning and Development*, which established development councils at the county and regional levels, such as the Budapest Agglomeration Development Council. However, the relations between the city and its surroundings remained problematic, as neither Pest County nor any other entity except the Parliament had any power to influence decisions made by the settlements. At the same time, given the lack of any formalized "agglomeration" structure, the individual settlements' positions are too weak to negotiate effectively with Budapest.

This brief overview of the institutional context of Budapest urban development points to how constrained and difficult the coordination of public policies beyond the district level can be, and to the practical impossibility of coordination between Budapest and the neighbouring settlements.

### 7.1.2 The economic factors

The public sector lost its previously dominant role in the economy very fast. Rapid cash privatization, the excellent geographical location of Budapest, and political stability all drew extensive Foreign Direct Investment (FDI). Between 1990 and 2003, 33.2 billion Euros of FDI was invested in Hungary (National Bank of Hungary 2005). According to the data from UNCTAD, the FDI stock in Hungary by the end of 2004 amounted to 48 billion Euros (Iceg-Corvinus 2005), with significantly higher FDI per capita than that of the Czech Republic, Slovakia or Poland. More than half of the FDI in the country came to Budapest, generating 35.1% of the country's GDP, a percentage more than double Budapest's share of the population (17%).

That phenomenon, the disproportionate role of the largest (usually capital) city in the accumulation of capital, is common among the post-socialist countries (Kovács 2002a). However, although the 2004 data on investment by firms shows a heavy concentration of 41% in the capital city, such dominance by Budapest is no longer stable. Since 1999 the investments in Hungary have been increasing each year by 3-7%, while investments in Budapest have fluctuated between a 10% decrease and a 9% increase.

The territorial and social consequences of transitional processes in Budapest and Hungary are very similar to the outcomes in other countries where "... economic restructuring that took part was largely left to market forces as the legacy of central planning had discredited top-down policies of economic and regional development. As a result of the transition, regional and social inequalities have risen substantially within Central and Eastern European countries" (Michalski and Saraceno 2000, p. 21). As a general rule, the largest cities came out as winners by gaining the most FDI and managing to carry out economic restructuring in the shortest time.

## 7.2 Spatial changes and restructuring in Budapest

To analyze the spatial change and distribution of investments in the post-socialist period, we distinguish between the following concentric zones in and around Budapest (Fig. 7.1.):

- "small Budapest" is the city within its pre-1950 border, containing the densely built city core and less dense mixed-use areas at the outer border, today with about 1 million residents;
- the "inner periphery" marking the rest of Budapest, annexed in 1950, today with about 700 thousand residents;
- the "agglomeration zone" defined since the mid-1990s, of 78 suburban settlements around the city, with about 700,000 residents with intensive connections to the city.
- the "outer periphery," the rest of Pest County, with about 400 thousand residents.

The four zones add up to the so-called Central Hungarian Region, one of the seven Hungarian planning and statistical regions, with over 2.8 million inhabitants.

Enyedi (1996) distinguishes three functional changes in the built environment that determine the development and structure of cities: expansion of commercial areas, transformation of industrial zones, and altered characteristics of housing. We present the spatial changes and restructuring in Budapest with respect to commercial developments, residential developments, and territorial conflicts.

### 7.2.1 Commercial developments

The development of Budapest after the political changes was dominated by foreign, mostly Austrian, real estate investments (Sármány-Parsons 1998). Almost all plots in the center of the city that had been empty since the Second World War were filled in with large office and bank buildings, built in standardized building envelopes to minimize risk and construction costs. In the late 1990s, the office



**Fig. 7.1. The city of Budapest, the agglomeration zone, and the Central Hungarian Region**

Notes:

1: the borders of Small Budapest (the city up till 1950); 2: the inner periphery; 3: the agglomeration zone (78 settlements); 4: the outer periphery (The total area of 1-4 is the CHR.)

boom continued along major connecting roads (mainly Váci út) and ringroads around the inner part of the city (Hungária körút).

Another visible manifestation of new urban investments was “ground floor capitalism”—the rapid establishment of shops. In this regard there was a definite difference between Prague and Budapest. In Prague, restitution of property to its former owners enabled the revival of family businesses in traditional form. The cash-privatization in Budapest stimulated an influx of foreign shopping chains and led to changes in the character and use of the shops (Kovács 2002b).

The real novelties, however, were the shopping centers and hypermarkets. Since 1994, the year of their first appearance, over one million square meters of new commercial investments have been built in and around Budapest. The commercial developments culminated in the second half of the 1990s, during the adaptation period. During the adjustment period commercial investments continue, al-



though the figures show that Budapest is no longer the only place in Hungary to invest (Table 7.1.).

**Table 7.1. New commercial investments in Budapest and its agglomeration, 1990-2004**

Commercial development, new investments (in thousand square meters)	Vacuum period 1990-1995	Adaptation period 1996-2000	Adjustment period 2001-2004	Total 1990-2004 (percentage)	Total 1990-2004 (‘000 sqm)
Small Budapest	31.1	45.1	64.7	51.0	531
Inner periphery	45.6	31.9	12.2	26.0	271
Agglomeration zone	23.3	22.9	23.1	23.0	240
Total (Budapest + agglomeration)	100.0	100.0	100.0	100.0	
Total in ‘000 sqm	103	554	385		1.042

Source: Statistical Yearbooks, own calculations

Table 7.1. shows the pattern of locational decisions of commercial investors. The share of new commercial investments outside Budapest has remained stable - below one quarter of all investments into the Budapest area. While the initial high share of the inner periphery decreased, the central areas of the city captured about 2/3 of all commercial investments in 2001-2005. The majority of these investments are located in the periphery of small Budapest, mostly in the transitional belt consisting mainly of brownfield areas.

Data show that the majority of new investments have remained within the city, and that the commercial investments have not become a driving force for urban sprawl. Another positive aspect is the partial revitalization of brownfield areas, as many of the large shopping centers have been built in abandoned areas of earlier industrial use. On the other hand, despite the relatively advantageous spatial pattern, the concentration of commercial activities into the large shopping centers and hypermarkets contributes to the collapse of traditional forms of commerce and to abandonment of many shopping streets in the inner part of the city.

The above chronology of commercial development in spatial terms reveals the public sector's challenges in regulating market processes. In the middle of the 1990s, Budapest local governments were unprepared for the investors, who could buy areas for commercial development with no restrictions. Only the zoning regulations had to be taken into account, and large developers could easily influence even those regulations by exploiting the conflicts of interest between local governments. Developers effectively used the loopholes in the two-tier local govern-

ment system, searching for districts with less constraining conditions, or going out of Budapest to the neighboring settlements, where such big investments were more welcome. The first planning regulations limiting the size of shopping malls in dense built-up areas came out at the very end of the adaptation period. However, large scale commercial investments in the central areas of Budapest did not decrease after 2000, rather the contrary, which indicates the ineffectiveness of the new regulations and also that their appearance came late relative to the investors' purchases of suitable areas, made mostly before the regulations took effect.

## 7.2.2 Residential developments

The mass privatization of the housing stock, the increased income differentiation, and a major growth in private car ownership during the 1990s have all influenced the residential decisions of the population. The number of cars per 1,000 residents in Budapest increased from 241 in 1990 to 355 in 2004<sup>2</sup> (CSO 1991-2005). Residential mobility increased substantially, and along with it suburbanization began as the pursuit of social prestige. Real estate investment was gaining value in the developing suburban settlements, but was declining in many older urban areas.

Suburbanization is evident from the data on population change in Budapest, its urban agglomeration zone and Pest County (Table 7.2. and 7.3.). Like the population of Hungary, the population of Budapest has been decreasing since the 1980s, primarily because of the aging population. Although through the 1970s the natural loss of population was balanced by in-migration to Budapest, since 1993 the consolidated index of the changes of permanent and temporary residence between Budapest and the rest of the country has become negative for Budapest. In contrast to the rapidly declining population in Budapest, the population of the agglomeration zone has been increasing. Pest County is the only medium-level unit in the country to have rising population in the last few years.

Migration processes of the last one and a half decades show strong reorganization within the Budapest area: a quickly decreasing inner core and growing peripheral areas. It is interesting to note that the greater Budapest area, the Central Hungarian Region, was decreasing in population slightly faster than the national average. The reason for that could be the strong effect of the demographic loss of the former Budapest population.

The suburbanization process is evident in other post-socialist cities as well (Kovács 2002a). However, the migration loss in Budapest was higher than those in other Eastern and Central European capitals and has even increased since the beginning of the 21<sup>st</sup> century. Between 2001 and 2003 the yearly migration loss was 35 thousand in Budapest, compared to only five thousand in Prague, two thousand in Bratislava, and an annual gain of 15 thousand persons in Warsaw (CSO 2005).

<sup>2</sup> Motorization growth in other post-socialist capital cities was equally dramatic during the same period. For example, in Ljubljana these rates increased from 335/1,000 in 1990 to 420/1,000 in 2000, while in Prague motorization doubled from 277/1,000 to 520/1,000.

**Table 7.2. Annual population change in and around Budapest, 1990-2003**

Population change per year in thou- sand residents	Vacuum period	Adaptation period	Adjustment period
	1990-1995	1996-2000	2001-2003
Small Budapest	-17	-20	-18
Inner periphery	0	-4	-12
Agglomeration zone	+4	+10	+22
Outer periphery	+1	+1	+1
Central Hungarian Region (total)	-12	-13	-7
(Hungary total)	(-20)	(-15)	(-11)

**Table 7.3. Population in Budapest, the agglomeration zone, outer periphery and Hungary, 1990-2002\***

Number of population, in '000	1990	2002	Change (2002/1990)
Budapest	2.017	1.719	85.2 %
Agglomeration zone	569	691	121.4 %
Outer periphery	381	414	108.7 %
Central Hungarian Region (total)	2.967	2.824	95.2%
(Hungary total)	(10.375)	(10.142)	(97.8 %)

Source: Budapest Statistical Yearbook 1990-2003

Note:

\* at the end of the year.

A more detailed look, however, reveals an interesting fluctuation in the migration loss from Budapest to Pest County. From a relatively low level of yearly migration loss, the balance rose to 11-15 thousand per year in the second half of the 1990s and to 24-27 thousand persons per year in 2001 and 2002. However, in 2003 the intensity of suburbanization fell to the level of the late 1990s, and the predictions for 2005 show a further decline of migration loss, to the level of 5 thousand and most recently 2-3 thousand persons per year. These data suggest that *the peak of suburbanization is over in Budapest*: fewer families decide to move out from the capital, and some of them are even moving back.

The residential mobility is closely related to the changing transportation patterns. Although public transport in Budapest is comprehensive and still covers 60% of communications within the city, its share has shrunk substantially since

the 1980s, when the modal split was 85 to 15. The sharp increase in the individual motorization rate and the suburbanization of Budapest are parallel processes. Even the most recent decline of the negative migration balance, since 2003, may be due to the worsening traffic situation. The capacity of the connecting and inner roads cannot be increased to match the rate of growth in car ownership and use. Consequently, the frequency and the intensity of traffic jams in the periphery as well as in the inner city areas are increasing.

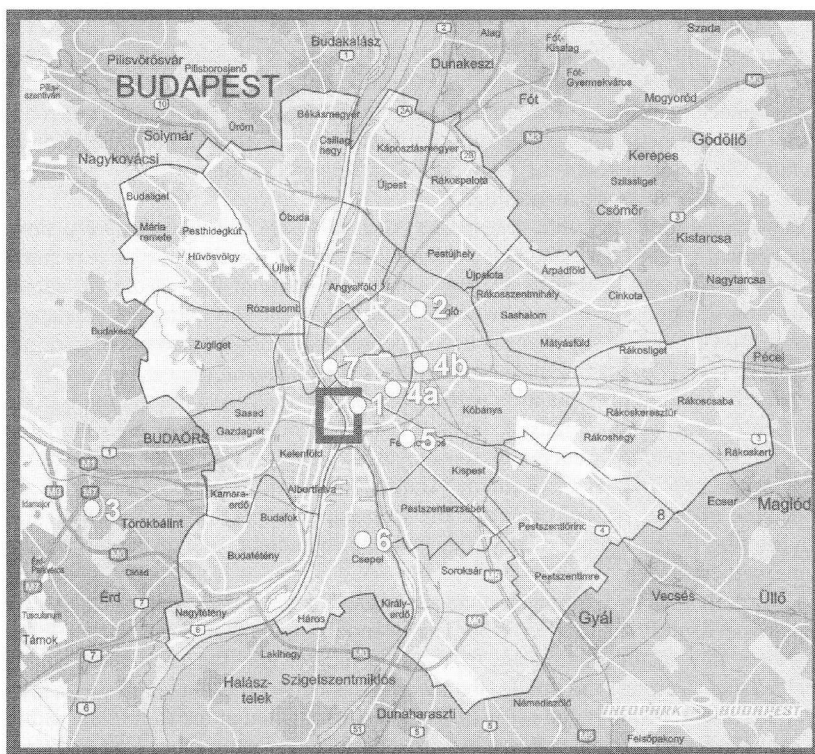
Improvement of the public transport system is costly and therefore very slow. Enlargement of the "park and ride" capacity is limited, partly because it requires land acquisition and land costs are high. These are some of the reasons for suburbanization lessening as fewer and fewer households find the living circumstances outside Budapest to be superior enough to counterbalance the pains of commuting.

This overview of spatial mobility processes shows that in the case of Budapest the suburbanization of population, which was by far the largest among the Eastern and Central European capitals, seems not to be the consequence of the suburbanization of commercial or economic (employment creating) investments, as was the case for the new Lander of Germany (Herfert 1997). In the case of Budapest another type of "pull factor" operated: the increasing supply of land and built-for-sale housing in the surrounding settlements the intended effect of the large-scale rezoning there.

The residential and commercial market-based developments described above helped the country to recover from the economic collapse of the early 1990s. However, due to the dominance of the free market and the lag in developing mechanisms to protect the public, the inequalities between different strata of society, parts of the country, and areas of Budapest intensified at the same time. Similar social polarization and residential segregation is evident in other East and Central European countries (Enyedi 1996; Sármany and Parsons 1998). Many households are pushed into poverty, and the population living below the national poverty line is on the rise (see Tsenkova and Andrusz in this volume). Social exclusion, negative demographic trends, and deteriorating health situations all indicate growing social problems, particularly in remote rural areas and poor urban districts. The contrast between the poor and the rich is especially visible within Budapest, where both the most affluent areas and the most socially distressed areas are to be found. The difference in life expectancy between the "best" and the "worst" districts of Budapest is six years: the inhabitants of the Buda district II are on the level of Belgium, while the inhabitants of the Pest district X are on the level of Syria (Tosics 2005b).

### 7.2.3 Territorial conflicts

The post-socialist period of city development is dominated by the private sector, the privatised ownership of land, and a process of public decision-making decentralised to the district level. The most intensely growing areas of the city are those where the most financially well off want to live and where the office and retail developers want to invest.



**Fig. 7.2. Case study areas of territorial conflicts in Budapest**

Notes:

1. Middle Ferencváros 2. Zugló 3. Törökbálint 4a: Magdolna quarter 4b: Hős street 5: Outer Ferencváros 6: Csepel housing estate 7: Central Business District

These areas include central parts of the inner city areas (central business district, CBD) with large office developments, scattered areas of gentrifying urban renewal at the edges of the inner city, some areas in the brownfield transition zone where new investments in shopping centers have concentrated, and agglomeration settlements that are sought by the suburbanizing middle classes. As a consequence of the pull of these dynamic areas, middle- and upper-class families have vacated certain parts of the housing stock, many of which have quickly deteriorated in the absence of public interventions at either the national, district or municipal level. Among the marginalized areas are the deteriorating, ghettoized areas at the edge of the inner-city that house minority ethnic groups and low income strata; some of the brownfield areas that are dominated by abandoned industrial buildings and are

**Table 7.4. Conflicts in areas of newly acquired high prestige**

The case	The process	The conflicts
1. Middle Ferencváros Urban renewal in an inner city housing area, on the border to the CBD	The decision of the district local government on area-based renewal preceded the law on Right to Buy and so exempted the area from compulsory privatization. It developed a well-elaborated, public-private partnership (PPP) strategy and with help from the Budapest municipal level successfully completed the project, with a relatively high share of public investments (some 20-30 % of total investments) and unavoidable partial gentrification (although with improvement in housing conditions).	Conflicts continue between the original residents and newcomers and with families relocated to other parts of the city (Tosics et al. 2003).
2. Zuglő High-prestige, new housing development leading to densification of the garden-city-like, lower density, green-belt part of the inner city	In Zuglő the densification is driven by market processes (single family or low density multi-family areas are rebuilt by developers into higher density residential areas).	From the point of view of the city as a whole, the densification of the residential areas at the edge of the inner city is appropriate and the best alternative to suburbanization. However, the rebuilding has triggered complaints from original residents regarding the spillover effects such as deteriorating parking situation, increasing traffic, and reduction of green areas. Also, the environmentalist groups attack the new higher density developments as giving priority to real estate investment interests against the environmental values of green-belt areas within the city.
3. Törökbálint Intense growth and densification of a suburban settlement illustrating uncontrolled metropolitan restructuring in the absence of strong medium-level (regional) government and with fragmented local government structure	The independent re-zoning decisions of settlements in the Budapest agglomeration result in an informal competition among these settlements to offer more land and investment possibilities for residential and commercial venture developers. In the short term this brings financial gain to the local government, as it gets paid by the developers for allowing the re-zoning of these areas, more than the cost of extending school, health and other services.	In the long run, however, the extension of the residential area is a loss, with costly management of the infrastructure and tax revenues collected from the new residents insufficient to bridge the gap between the demand for social infrastructure and the very limited supply. In addition, this development contributes to the loss of green space around Budapest. From the perspective of local environmental groups, there are no reasons to endorse the re-zoning, except for the personal interest of some of the council members who own land in the areas which gains in value as a consequence of re-zoning.

Table 7.4. (cont.)

**Conflicts in areas of deterioration and decreasing prestige**

The case	The process	The conflicts
4. Magdolna quarter and Hős street  Emerging ghetto areas at the edge of the inner city.	Despite mixed housing tenure, the social structure becomes increasingly homogenized, leading to ghetto symptoms in the public schools (i.e., large number of segregated ethnic groups) and to the general feeling of insecurity. The district government is unable to change this trend under the conditions of fragmented local government system and uncoordinated sectoral policies. Such physically and socially distressed areas could be tackled only by area-based interventions with the participation of district, municipal and central government agencies.	The usual signs of conflicts in ghettoizing areas, with high shares of all types of negative symptoms (low social status, ethnic segregation, criminality). As a typical ghetto symptom, a significant share of the population feels unsafe in their own neighbourhood.
5. Outer Ferencváros  The deterioration of the transitional zone with numerous brownfield areas.	After its collapse, socialist industry left behind brownfield areas that are disproportionately larger than in the western cities. Considering the financial difficulties of the district local governments and the increasing supply of greenfield development options outside Budapest, it will be very difficult to transform these urban brownfields into functional new land uses. Their locational characteristics will probably play a role in the restructuring process.	The under-utilization of large areas in the inner periphery causes problems within these areas themselves (the remaining users are less and less able to maintain the infrastructure) and also with regard to the city as a whole (the large 'no-mans lands' are becoming gaps in the city structure).
6. Csepel housing estate  Prefabricated housing estate in the inner periphery (district XXI)	A slowly deteriorating large housing complex, built during socialism, is experiencing the beginning of the downward trend. Since the early 1990s, the estates have acquired different positions in the new real-estate market hierarchy, depending on the extent of privatization, the demographic changes, and their location within the city.	Some parts of the estate are still dominated by publicly owned housing, usually full with families in arrears in paying their water or heating bills. Because further increase of arrears might endanger the service provision for paying families, conflicts between residents increase.

**Conflicts in areas of competing development needs**

The case	The process	The conflicts
7. CBD area of Budapest  Structural changes from residential to non-residential functions	In the central business area of Budapest the dynamic spread of non-residential investments reduced the residential functions. The 'value gap' between residential functions and the new office and commercial functions was evident from the early stages of transition. The functional change proceeded without much public control, so the privatized flats could be converted into offices or commercial premises.	The restructuring has led to mixed function buildings and neighborhoods. The residential use is in conflict with the new functions as well as regarding the use of public space (e.g. parking). These conflicts in the central city area are manifested in a substantial variability in the condition of areas in close geographical proximity.

unattractive to commercial investments because of their locations or heavy contamination; some of the large housing estates at remote locations that are difficult to access; and some of the suburban settlements at the edge of the agglomeration that offer cheap real-estate and draw 'social suburbanization,' i.e., families moving out from the expensive-to-run housing estates.

Examining the urban development conflicts over time, we find that the intensity of the territorial conflicts varies in different stages of transition. Most of such conflicts are sharper in the vacuum and adaptation stages, when control mechanisms are not yet developed and public policies to compensate the losers are weak or absent. In general, it also seems that it is easier to handle the conflicts in the upwardly mobile areas, where legal regulations may be sufficient in dealing with different interests, whereas in the deteriorating areas, substantial public investments would be needed to stop the downward spiral.

### **7.3 The role of the public sector in 'managing' the spatial restructuring**

The public sector's role in urban planning and policy has changed substantially under the new circumstances. In the centralized planning system, the public sector determined the urban development processes from a dominant position, but now its task is to regulate the dominating market processes from a subordinate position. It clearly has not been easy for the public sector to perform competently in this new role, for several reasons: a limited capacity to deal with urban issues under market conditions, constrained authority and power relations, increased responsibilities, and persisting financial problems.

The financial problems resulted from cuts in central state funds and difficulties in extracting revenues from the private sector. During the vacuum period the private sector had windfall gains, but avoided paying its share of public revenue because of unclear regulations and lax enforcement. During the adaptation period either the private sector could not contribute or only a small portion of its contributions reached the local governments because the payments were collected and often used at other levels of government. During the adjustment stage and under established social and financial policy, the public sector had only small assets remaining; public goods and services had already been privatized.

In the new century, as the entire transition process comes to an end, the Budapest municipality is attempting to establish control over the market-led urban development. The municipality promotes urban renewal through a limited action-area approach and aims to apply "integrated" solutions to the challenges of urban development by combining economic, environmental and social interventions. The municipality has completed the first steps in strategic planning: approval of the Budapest Strategic Development Concept in 2003 and the launching of the medium-term, integrated development programme in 2005. Even ideas about regional governance have started to emerge, to deal with the difficulties in controlling and guiding regional development under the present legal and administrative set-up.



Compared to the richer and more powerful public sectors of western European cities, Budapest, like most other post-socialist cities, lags in its level of control over market processes and of public intervention. Even so, the modest attempts of the Budapest municipality to foster public involvement are criticized by other stakeholders, namely the major developers, who complain that the public sector constrains development with unnecessary regulations. Meanwhile, the environmentalists complain that the public sector is too weak and corrupt to regulate private development.

Thus, in the adjustment stage of the transition substantial barriers still hamper the much needed increase in public control over market processes. With no easy solutions in sight, conflicts continue between the municipality and the districts over green areas and building rights, between the municipality and the surrounding settlements over spillover effects of development, between the public actors and the private developers over shopping centers, and between public/private actors and the local residents. However, compared to those in western European counterparts, the territorial conflicts are still relatively peaceful. This could be attributed to the still relatively small proportion of the marginalized strata of society, Roma and immigrant groups, within the urban population. Another factor may be the limited opportunities for the affluent strata of society to move to segregated, high-prestige housing areas. That situation, however, is changing fast as the supply of high-quality new housing increases both within and outside the city.

Accession to the European Union (EU) could help the Budapest municipality regain some control over market-driven urban development, as well as increasing its financial means and political power. But that beneficial outcome would require more comprehensive and better formulated urban policies at the EU level, concentrating not only on environmental issues and physical infrastructure, but also on the development of integrated public policies similar to the EU's Community Initiative URBAN, already extended to its second seven-year 2000-2006 term. A strong incentive from the EU is needed to prompt Budapest to develop integrated public policies and prepare for the increasing global urban competition.

## **7.4 Conclusion – Budapest 15 years after**

The aim of this chapter was to show, analyse and explain the spatial restructuring of Budapest in the post-socialist period. The 15 years of transition were divided into three time periods to clarify the significant differences in political and administrative factors of development. Within these periods, the spatial development processes were described in the framework of the four territorial zones of the larger Budapest area. Economic forces, illustrated by commercial investments, were shown to play a significant role, favouring the inner parts of the city as opposed to suburban areas. The spatial re-allocation of population, however, showed a strong tendency towards suburbanization, driven mainly by the suburban land supply that was created by re-zoning decisions of the suburban settlements.

Privatization of assets and decentralization of decision making authority contributed to the weakness of the public sector in controlling market processes. The strengthening of public control could be observed only at the end of the transition period. In the absence of that control, territorial conflicts emerged in both the dynamic and the deteriorating urban areas. It remains to be seen how strong the newly developed strategic powers of the public administration (development concept and programme) prove to be in orienting further developments and handling territorial conflicts. For the more efficient functioning of the public sector, changes are needed as well in the administrative system and power allocation, to give more weight to the regional level over individual settlements and to the municipal level over the Budapest districts.

On the basis of our analysis the following answers can be given to the questions raised at the beginning of the chapter: With regard to the main driving forces of post-socialist urban development in the transition period, different patterns might be conceptualized. There are examples, e.g., in German cities, of the leading role of suburban economic and commercial investments, which preceded and partly caused suburbanization of the population. Budapest however shows the opposite picture, with outward mobility much more characteristic of the population than of the developers.

Regarding the question, of the extent to which Budapest is moving towards the model of a market-oriented city, losing its characteristics from the socialist period, our analysis has shown the following:

- The CBD is losing residential density, as the first two stages of transition, especially, led reduced residential function.
- The outer parts of the inner city are becoming more dense, as in the third stage of transition the smaller brownfield areas and single family areas are being rebuilt with higher density (see the Zugló case).
- The inner periphery with the large housing estates (which earlier constituted the "back" of the density camel) is slowly losing population.
- The quick densification of the suburban areas is starting to slow down at the end of the transition.

Thus, at least in its residential density structure, Budapest seems to be losing its camel-back anomaly and heading towards the "normal" density pattern of market-oriented cities. Just as in Hungary the post-socialist transition was relatively fast, with short vacuum and adaptation periods, the development of the city points more directly in the direction of market-driven development.

The market orientation of city development does not mean that within 15 years Budapest became a mainstream capitalist city. Some aspects of the socialist development period remain important, for example, the leading role of public transport and the high proportion of the population living on large housing estates. Indeed, the legacy of a dominant public transport system is one aspect that should be preserved from the socialist period. To keep the primary role and the high density network of public transport is however a difficult task, especially given the explosion in the number of private cars. Although the new developments of the last

years, especially the densification of the outer parts of the inner city, raise new arguments for improving public transport, it is difficult for the public sector to finance the very costly investments needed to keep public transport competitive with private car use.

The 'heritage' of the large housing estates is an even more difficult question. This housing form has substantial advantages in terms of sustainable urban development, being a dense urban residential form with good public transport links and an environment-friendly heating system (Tosics 2004). The popular opinion of large housing estates is, however, low. Most residents would move to other housing forms. Substantial public investments would be needed to modernize large housing estates, preserving them as a competitive form of residence as opposed to the suburban forms, however less sustainable these are from a public perspective.

From our overview it can be seen that the emerging public sector, urban planning and policy making, played different roles in the successive stages of transition in terms of 'management' of the changes and control over the market processes. The 1990s, with the vacuum and adaptation periods, can be characterized as spontaneous development in Hungary and in Budapest, dominated by the privatization of the economy and liberal policy, with no or minimal public interventions and no coordination on the regional level. The results of this development track were mixed: Budapest absorbed a very significant amount of FDI, and the market-led processes resulted in quick development of economic poles within and around the city. However, the sustainability aspect of the development was weak: massive suburbanization, the dominance of green-field development over brown-field redevelopment, growing traffic problems. Furthermore, social inequalities increased. In the new Millennium, gradual changes towards more comprehensive public policies and strategic planning are observable. As with this adjustment period the transition comes to an end, the question is still open: how much will the newly emerging public policies be able to influence the functioning of the strong market forces?

The transition period of development was more or less oriented toward the free-market in other post-socialist cities as well. At the end of the transition from socialism into capitalism, however, there is intensified need for a new version of public control over market development processes, in order to avoid these serious problems of purely market-dominated urban development: spreading out of cities, growing differentiation between the dynamic and the stagnating/deteriorating areas, sharpening social conflicts with increasing socio-spatial segregation, etc. The new orientation calls for more pro-active public leadership and a new type of urban governance, which – in intense cooperation with the private actors – should lead to a more balanced, controlled market development of the post-socialist cities.

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