

Chapter 3

Perspectives on Budapest

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One of the most striking changes in Central and Eastern Europe since the end of the 1980s is the emergence of truly independent local governments. Earlier, local councils acted more on behalf of the central organs of government than for the benefit of the local population. To illustrate this point, the most important decisions relating to Budapest were taken in a joint session of the executive committees of the local council and the local party organization. The elected members of the council had no real power but had to accept the decisions of the executive committees. Today, the local government of Budapest, like all other local governments, is its own master; that is, the local assembly can freely decide how to solve the problems of the city. Of course, new problems like financial restrictions have emerged that can considerably limit decision-making freedom.

In this chapter, I will discuss the present situation and the problems facing local governments in the region. Following a general overview of the growing role of local governments during the period of transition, there are four topics that I will discuss in greater detail:

1. the relationship between the central and local governments—the political and financial aspects of decentralization;

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2. the special problems of the two-tier administrative system in metropolises—the relationship between the municipal and district governments, including the problem of promoting cooperation in a very decentralized local government system;
3. the relationship between the municipality and the surrounding settlements—the agglomeration problem;
4. the potential privatization of public utilities in the local government sector.

At the end of this chapter, I will try to draw some conclusions about the future role of local governments in the transition countries of Central and Eastern Europe.

The examples in this chapter will come from Budapest. This city is an interesting case from a political point of view, as in the last six years the local government had the opportunity to work under very varying political circumstances. During the first four-year period, the local government operated in opposition to the ruling coalition of the country, but during the last three years, following the election of a new government, it has been in the same camp. Besides political tensions with the central government, the municipality of Budapest has had to deal with the districts, which differ greatly in their readiness to cooperate. This is the other special feature of the city; namely, its administrative system. We have a real two-tier system of government in which some tasks, responsibilities, property, and revenues are delegated to the municipal level, others to the district level.

The Growing Role of Local Governments in the Transition

The role of local governments in the socialist system was a subordinated one: they were essentially deconcentrated units of the central government and had little or no financial autonomy. Policy making was controlled and centralized, and local governments had little independent revenue and few independent spending functions. The central

government exerted its control over the local councils through nineteen powerful county councils that were key players in the process of redistributing funds.

Hungarian regulation reform began in 1986 and proceeded slowly until the beginning of the real political transition. From the beginning of the transition, local governments in most Central and Eastern European countries were plunged into a new role: as service-providers, not controlling masters; as creatures of their citizens, not as extensions of the national governments. There was a wide-spread belief that many of the things that people required from their governments could best be provided or accomplished at the local level.

Among the basic reforms introduced at the beginning of transition in 1989–1990, privatization and decentralization were by far the most important. Privatization means that the total quantity of public activity must be reduced. Political decentralization is a parallel process granting new tasks, responsibilities, and rights to the new local governments that are independent players in the field of political democracy and are not subordinated to any other level of government. This process must be accompanied by fiscal decentralization, which means that local governments must be given financial resources and the authority to build the staff and institutional capacity to carry out their financial decisions. The main dilemmas facing this process were the following:

1. privatization—how many rights and responsibilities, tasks, and means should be retained as public activities (e.g., should public utilities be privatized)?
2. political decentralization—how much of the remaining public activity should be delegated to local governments (e.g., should the responsibilities associated with a social safety net be delegated to local governments)?
3. fiscal decentralization—in what forms should local governments be given the financial means to carry out their responsibilities and how much fiscal discretion should they receive (e.g., should local governments have the right to determine local tax rates and tax bases)?

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In 1990, Hungary—like other countries in transition—introduced a new, decentralized local government system. The middle level of administration (the previously very powerful counties) was practically abolished, while the number of local governments increased from 1,500 to 3,150. The Local Government Act delegated very broad rights and responsibilities to the local level. This major institutional change contributed to the transition from a centrally planned economy to a market economy, as real local freedom created better opportunities for resource mobilization and, in general, for a more efficient treatment of local problems.

The negative side of this development was fragmentation, which became a problem in Budapest where, besides the municipal government, twenty-three district governments were elected (each with its separate mayor, local assembly, and local budget). All twenty-four governments were defined by law as local governments with equal rights. The districts were delegated the basic local responsibilities (they became the owners of public housing, of elementary schools, etc.), while the municipal government was delegated regional responsibilities (the ownership of public works such as water and sewage and transportation, the right to plan and zone the city, etc.). The responsibilities of the districts were often defined quite vaguely, for example, in planning, housing, and parking; a type of joint responsibility with the municipal government for these areas has developed.

There is no one best solution for the system of local government: the example of Western countries shows that quite different models are possible, for example, the hierarchical French system with many administrative layers and the American system where local governments are very independent. The years since the beginning of transition have brought new knowledge about the operation of local governments. The legal position of local governments has been more or less clarified and stabilized. In Hungary, for example, the central government has no right at all to intervene in the matters of local governments, and the Law on Local Governments can only be modified by a two-thirds majority vote in

Parliament. It is a common practice in the countries of the region, however, to influence the conduct of local governments through financial regulation.

The Relationship between the Central and Local Governments

Clearly, important prerequisites must be fulfilled before local governments can carry out their new role: a vesting of more authority and responsibility in local governments must be combined with the provision of adequate resources (either by transferring them from above or by refraining from centralizing local resources). It is also clear that some special functions must, in any case, remain subject to centralized control, for example, maintaining the minimum social safety net and promoting cooperation between communities and regions.

As already mentioned, central governments in the region recognize that it is easier to influence local governments through financial regulation than through legal or administrative means. Central governments try to shift the economic deficit at least partially to the local governments. It could be argued that this strategy is justified because the potential “reserves” of local governments in salable properties and potential tax revenues were unclear when the financial regulations governing the decentralized local government system were created. However, transfers from the central budget to local governments can decrease to such a degree that the functioning of the system may increase macroeconomic pressure.

From the point of view of local governments, if legal security has been achieved, the next goal is to create similar security regarding financial regulation, which means creating a system in which budget and subsidy allocations and tax laws change according to given principles and not on an ad hoc basis, reflecting only the current interests of the financial leadership of the country. From a financial point of view, the Hungarian experience will highlight many of the difficulties of establishing a substantially independent system of local government.

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Local government revenues can be classified as local own-source taxes and revenues, shared taxes, and central grants. In Hungary, average own-source funds account for 25 percent of all revenues, shared taxes for less than 10 percent, while central transfers account for almost two-thirds of all revenue. The financial system changes year by year, which can be illustrated by the personal income tax (PIT) transfer. Annual budget acts determine the share of the total PIT revenue that is transferred to the local level on the basis of derivation. In the early 1990s, these figures were 100 percent in 1991, 50 percent in 1992, 30 percent in 1993–1994, and 35 percent in 1995. Changes in the amount of PIT transfer create uncertainty in long-term planning. In the case of Budapest, as a relatively high-income jurisdiction, it is in the municipality's interest to increase its share of PIT. However, the municipality has only indirect means (through lobbying) of influencing the yearly change of this share (see table 3.1).

The major items in the local budget that the municipality can directly influence are those included in the category "own revenue," which includes local taxes and the proceeds from the sale of assets. After lengthy negotiations between the districts and the municipality, potentially the most important local taxes were "shared" between the two levels of administration: the property tax became district revenue while the turnover tax was allocated mainly to the municipality. The former is a significant revenue source for the municipality, accounting for approximately 17 percent of its revenues (excluding social security transfers). The sale of assets is also a potentially substantial source of revenue, especially from the seven property-related public utilities—the sale of some of these is in process, as will be discussed later. The magnitude of this source, however, is very volatile.

Under such circumstances, it is very difficult to create a relatively stable local budget. The main difficulties impeding the creation of a carefully balanced financial strategy for the municipal government are as follows:

Table 3.1
Budapest Municipal Government:
Yearly Budgets 1990–1996 (in millions of Hungarian forints)

	1990	1991	1992	1993	1994	1995	1996
Rate of inflation (%)	28.9	35.0	23.0	22.5	18.8	28.2	23.6
Budget revenues	53,726	56,434	67,037	71,983	88,647	107,527	126,206
Loans	198	579	547	6,321	6,733	11,835	8,900
Budget total	53,924	57,013	69,599	78,304	95,380	119,362	135,106
Real value of budget total	53,924	42,232	40,701	38,495	39,470	38,529	35,284
Central transfers	39,818	40,604	46,970	46,604	55,134	61,047	62,075
Healthcare transfers	12,002	15,525	17,526	17,247	21,692	24,097	25,026
Personal Income Tax	12,536	9,403	12,140	9,339	11,683	13,720	16,143
Real value of PIT	12,536	6,965	7,311	4,591	4,835	4,429	4,216

1. the volatility of financial policy at the central government level (decisions about the resources of and the subsidies to the local budgets change substantially every year, depending on the magnitude of the government's deficit);
2. the huge fluctuations in the potential own revenue of the local governments, particularly one-time revenues from the sale of assets and revenues from local taxes that depend indirectly on the level of central taxation.

Due to these conditions, many local governments prepare only yearly budgets without a longer vision for the future. Thus, it is impossible to calculate the effect of larger investments, which can lead to the creation of projects with substantial unforeseen operating costs that drain local budgets. Such projects call for a new means of planning and the application of special financial techniques to counterbalance the volatility of central and local resources.

Regular revenues from taxes and grants have not kept pace with inflation—with the local governments' regular expenditures or with the operating costs of their institutions. In such a situation, there is always a great temptation to use irregular resources (revenues from selling assets) for financing regular tasks, which in the long run use up assets.

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The rejection of this approach is a key element in the budget strategy of the municipality of Budapest. Operational costs can be financed only from regular resources. However, the seven-year forecasts for revenues and expenditures clearly show a problem on the revenue side: regular revenues will not match inflation in the next few years.

At the same time, keeping up the level of urban services demands a certain amount of investment, about 20 percent of the annual budget. Our forecasts suggest that regular income could not finance the whole of the necessary investment, while one-time resources (selling assets and privatization) will essentially dry up in two to three years. We consider this relatively short period a chance. Our aim is to reach a 20 percent surplus (an operational surplus) through balancing regular incomes and operational costs. This surplus will cover financing the necessary investments when one-time resources are exhausted.

In the next few years, we will apply restrictions on operational costs, on one hand. On the other hand, investments should be concentrated first of all to encourage innovations in the operation of institutions, which will lead to lower operating costs. To achieve this aim, we even created investment funds to increase the efficiency of our institutions. The savings from lower operating costs will be high and lead to a more balanced budget in the long run. With this background, Budapest is in the position to change its financial strategy for investments. We are not compelled to take loans but can use this means of financing to even out the very volatile revenue side of the local budget. Thus, the strategy emphasizes that the municipality should issue bonds and that the funds acquired should be used mainly for investments in the rationalization of existing institutions. The limit on taking loans is calculated by the portion of operational surplus that can be used for debt service. This way we avoid a spiraling debt.

Two main views have developed recently in the Hungarian theoretical debate about the future financing of the local government system. These views can be divided into liberal and social views of local government finance. The liberal view stresses the real independence of local governments, including self-determined tax rates and tax bases, even if inequalities grow between communities with different potential tax

bases. The social view, on the other hand, emphasizes the role of the central government in redistributing financial resources to ensure equal opportunity for communities, even if this would lead to suboptimal solutions in many local governments. The real political choices are, however, more difficult than theoretical options. It can easily happen, for example, that the ideology of equalization is used to justify the centralization of financial resources, while the central government uses the resources to fight its budget deficit, rather than reallocating them to poorer communities.

The Special Problem of the Two-Tier Administrative System in Big Metropolises

The analysis so far has shown that decentralization has proved successful in Central and Eastern Europe and that administrative systems with strong local governments function better than their overcentralized predecessors. It is an open question, however, how this assertion applies to the special case of big metropolises. Here, the problem is the relationship between the municipal and the district governments, with the key question being the appropriate extent of decentralization: How much independence should be given to the districts, and what should be the role and power of the municipal government?

All big cities in the region face the problem of how to set up a democratic system of local government on the submunicipal level (e.g., district local governments), while avoiding the loss of efficient public administration and the usual problems of NIMBY (“not in my back yard,” which refers to the well-known fact that all small units want to avoid “problem functions,” such as sewage treatment plants, garbage dumps, and homeless shelters). There are very different metropolitan administrative systems in the region: there are examples where the municipality is powerful with many, and therefore relatively small, lower-level units (as in Prague), while the opposite pattern also exists with a weak municipality and a smaller number of powerful, relatively big districts (as in Warsaw). The case of Budapest is somewhere in

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between the two extremes because both tiers of the local government system are relatively powerful, with neither of them subordinated to the other.

The socialist heritage in the case of Budapest was a two-tier but centralized system in which the lower level (the districts) had very limited decision-making and financial freedom. After a debate lasting almost a year, the new local government system became—without changing the number or area of the districts—a “real” two-tier system, with the municipal and twenty-two district governments as equal local governments. The responsibilities and some of the financial resources were separated between the municipality and the districts. The twenty-three local governments had to agree among themselves how to share the remaining resources.

The Two-Tier System in Budapest

During the first four years of the transition, many problems emerged in the practical functioning of the new local government system. Some of the problems were connected to special functions that should have been assigned a clear decision-making process and authority. A famous case was a planned sewage treatment plant for which the municipality assigned an area in the master plan but the district refused to accept. Under those circumstances, it was a problem without a solution: the municipality did not allow any other use of the assigned area, while the district did not issue a building permit for the plant.

Because of this and similar unsolved dilemmas, it became clear that the law dealing with local governments in Budapest had to be modified. Three models for restructuring the administrative system of the two-tier local government system in Budapest were developed. In the first model (the centralized model), the municipality would be the major player, while in the second (the two-tier model), the two-tier system was kept and its contradictions addressed. The third model (the district model) made a distinction between the inner districts, creating a “city” within which the individual districts had a low level of independence, and the outer districts, which would be granted more freedom than before. The

three models—which were developed independently by three different groups of experts—elaborated three possible types of restructuring. It is interesting that none of the experts suggested a fourth possible model in which the districts would have received most of the local government rights and the role of the municipal government would have been reduced to that of an umbrella organization.

The Act on Local Government was modified in 1994 by the new government, and the second version of restructuring, with a few modifications, was accepted. This means that in practice the municipality's right to influence all of Budapest was increased (e.g., establishing a master plan that is compulsory for district planning), and it received more authority in areas where activity at the district level should be coordinated (e.g., setting rent in public rental units). At the same time, however, the role and independence of districts were retained, which meant that the system remained a real two-tier local government system. We may now highlight the achievements and problems of the modified two-tier system with examples.

A new strategy is being developed at the municipal level in Budapest. In overly decentralized metropolitan areas, bottom-up, freely chosen cooperation between local governments, if successful, can to a certain extent counterbalance the lack of mandated power at the municipal level. In the case of Budapest, the municipal government tries to build new forms of cooperation by offering advantageous forms of joint projects. In such cases, the districts can freely decide whether or not to join the association. A good system (with mutual advantages for both the municipality and the districts, compared to individualized, less controllable systems) can replace the power that could have ordered such cooperation some years ago. A good example of this new approach is the new association for collecting parking fees.

According to the 1991 Capital City Act, parking policy is the responsibility of the municipality in Budapest. However, due to decentralization, most of the public spaces (streets, parks, etc.) have been transferred to the ownership of the districts, except for the main roads and biggest public parks. This distribution of tasks and responsibilities led to a very inefficient parking system and, we can even

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say, to a lack of a coherent parking system. The municipality and the districts were entitled to collect parking fees as they desired in public spaces belonging to them. The result of this was a scattered system with (1) an inefficient collection method both on the site (leading to corruption) and at the district level (resulting in poor bidding practices); (2) a lack of efficient sanctions against illegal parking because the private companies did not have the right to sanction; (3) a level of traffic congestion that remained unchanged.

The municipality approved a new parking policy in 1993, which was intended to be a unitary system with high-level technical solutions, including meters monitored by a computer system. The policy was a part of the overall Budapest Transportation Program, which contained a park-and-ride system, new parking garages, and a program for the development of public transportation. The parking system is closely related to incentives to use the park-and-ride system and public transportation and even assists in the recovery of the expenses of the parking garages. These arguments justified a municipal-level parking policy. The efficiency of the parking system, however, depends very much on the cooperation of the districts. Originally, the districts refused to be included in the municipality's system and used their own systems to collect parking fees (or no system at all).

The innovative solution created a single-purpose association, which functions as a company controlled jointly by the municipality and the districts. The districts can freely decide whether or not to join the association. Both the city and the cooperating districts gain financial advantages over a scattered parking policy dominated by corruption. Negotiations with the districts were quite difficult, and even today the future is somewhat uncertain. (To reach an agreement the municipality offered to cover the up-front capital expenditure of the project.) Revenue sharing is based on ownership shares, and the procedures are visible and controllable due to the structure chosen. The expected yearly revenue is 260 million HUF, while the cost is projected to be 150 million HUF, which means a 100 percent increase in profit. (One interesting feature of

the project is that parking is free of charge for permanent residents because, for obvious political reasons, the districts have no incentives to “tax” their voters.)

Another example of coordination problems between local governments is the setting of rental fees for public housing. Resulting from decentralization, the Law on Local Governments transferred the ownership of public rental housing to the districts. In 1994, the municipality was given the right to establish a method for setting rent in the public rental sector of Budapest. The idea was to establish a system of rent zones to ensure that the rent for flats in better areas is higher (all other circumstances being equal) than for flats in worse areas. This regulation, however, was not accepted by the districts, and after long debates the result was a system that gives practically total freedom to the districts to establish their systems for setting rent. The outcome is very contradictory, as in some better areas of Budapest rents are actually lower than in the worst areas.

A final example highlights the problems of urban renewal. This is very difficult to handle in a decentralized metropolitan administrative system, as the most problematic urban areas, with the highest need for renewal, are usually in districts that have the least potential to obtain their own resources. Decentralization in such problem areas leads to increasing segregation and polarization. To fight this tendency, in 1994 the municipality was granted the right to redistribute among districts half of the revenue districts receive from sale of their assets. Additionally, the municipality is now working on the idea of a new rehabilitation concept that would be based primarily on municipal resources and would be free for the districts to join. The municipality would offer the know-how needed to organize special subsidy programs and would also contribute to the costs of such programs if introduced in any of the districts.

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Cooperation between the Municipality and the Surrounding Settlements

Another important need for the future is to create an interest in cooperation between the Budapest municipality and the surrounding local governments. For each problematic issue, such as public transport, sewage treatment, or waste disposal, the municipality of Budapest has to discuss the issues separately with each individual local government in the agglomeration. In the centrally planned system, there was a kind of cooperation between the Council of Budapest and the Council of Pest County (containing all the communities). This cooperation ceased to exist after the political changes because both “middle-level” councils were replaced by relatively weak middle-level governments, which could not force cooperation. Until recently, there was no hope of forming associations of all the interested local governments to solve problems. Moreover, in many cases smaller communities cooperate exclusively in order to fight the ideas of the municipality.

The difficulties caused by the lack of cooperation can be illustrated by the following examples of NIMBY issues. There is one incinerator in Budapest with a capacity of half the solid waste produced by the city. The other half must be placed into dumps. The existing dumps became full and most of the districts refused to grant permission to open new dumps on their territories. The same was true of the agglomeration of communities. At last the municipality negotiated the conditions and terms of compensation for opening new dumps individually. After long and difficult negotiations, the municipality entered into contracts requiring high levels of compensation and undertook to use the most modern isolation techniques to prevent the filtration of liquid elements of waste into the soil. Some of the new dumps are quite far from the city center (one is fifty kilometers away), which means that besides high transportation costs there is also a need to establish a transfer station. All these factors led to a rapid acceleration in the costs of waste treatment.

The story of treating liquid waste, including waste from sewage treatment plants, is very similar: not able to agree with any of the districts, the municipality had to find a dump far outside the city and incur heavy compensation and high transportation costs. The problem with these stories lies not in the fact that communities that agree to have a new dump on their territories ask for financial compensation and force the municipality to use modern techniques to prevent environmental disasters. The municipality—without moderating rules—can be blackmailed by the potential contracting communities, which can set the price of their agreements high. There are no rules for negotiation in these areas, there is no long term-planing, and there is no system for balancing the benefits and disadvantages among the agglomeration of communities.

The lack of cooperation and of any kind of regional planning also leads to unwanted consequences in other areas besides those related to NIMBY issues. The most relevant example is the development of big shopping centers. Recently, five big shopping centers have been opened within Budapest (with investment costs of between 50 to 70 million USD each), while there are at least six to eight others in preparation, the biggest two of which involve investment in the magnitude of 180 to 200 million USD. In the close vicinity of Budapest, other shopping centers are being built or are in preparation. At the moment, the municipality has no planning power at all to influence this process, which will in a very short time have a disastrous effect on trade in the inner city and on the potential of inner areas to develop in a broader sense. (This effect is proved by the Western examples.)

The common problem in the examples listed above lies is that, as a side effect of the collapse of central planning, all planning methods and processes were condemned as unnecessary and harmful. Consequently, the municipality currently has no real power to facilitate the solution of environmental problems or to influence large investments with huge spill-over effects. The municipality is not even informed about matters and developments that may have undesirable consequences.

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This situation will probably change in the near future as a result of the 1996 Law on Territorial Development and Regional Planning. This law aims to create a framework for cooperation among communities. The central idea is to distribute resources from the budget intended for territorial development to regional development councils that are responsible for further allocations. The special importance of the capital city is shown in the fact that the law prescribes the creation of the Budapest Agglomeration Development Council (BADC). This complicated regulation forces communities to communicate with each other. Individual districts and communities cannot become members of the BADC; membership is reserved for associations of districts and the community agglomerations.

Under the most recent plans, the vicinity of Budapest will be partitioned into six sectors, and outer districts and community agglomerations of a given sector will form an association, which will be represented by one of the mayors in the BADC. Besides these six representatives, the mayor of Budapest, the mayor of Pest County, and representatives of the ministries will become members of the council. Regional development plans accepted by the council must be approved by the Parliament and will be compulsory for each community in the region. At the moment, it is not clear how these regional development councils will work. Perhaps they will merely serve central interests, or perhaps they will become real forums for discussion about issues with regional relevance. The municipality hopes for the second outcome and is committed to representing its interest in discussions with the associations of outer districts and community agglomerations.

The Potential for Problems of the Privatization of Public Utilities in the Local Government Sector

Hungary's experiences with the privatization of public utilities could be of interest to the countries of the region as it is in the forefront in this regard. First of all, it should be made clear that there are differences

between privatization at the state and at the local government level. The special features of local government privatization can be summarized as follows:

1. privatization is less of an obligation for the local government than for the state—citizens urge the central government to privatize large state companies but there is no such push at the local government level;
2. local governments are in many ways in a worse position than the central government—they do not have adequate experience with privatization, there is no clear legal framework for local government privatization, and there are no special organizations responsible for privatization at the local level;
3. the impact of publicity is much higher at the local level (all the important decisions are made by political bodies, so it is more difficult to keep information secret).

No uniform opinion about the privatization of public utilities exists. The forerunner of the total privatization of the public sector is Britain, and privatization of public services is also practiced in France. Here, however, utility networks remain in the ownership of local governments and are rented out or given into concession to private companies. Germany, on the other hand, does not privatize public utilities because according to the majority view, privatization contradicts the principles of a social market economy.

The municipality of Budapest decided to begin privatizing its utilities because of two main reasons:

1. a lack of financial means: the municipality has difficulty ensuring the functioning of public services and has no means at all to carry out necessary investments;
2. improved efficiency: the relevant bodies of the municipality could not control in detail the operation of utility companies.

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Thus, the main aims of privatization are, on one hand, to increase invested capital, and, on the other hand, to improve efficiency through direct control by a private owner. The final aim, however, is to ensure high-quality service for the population in the long run. The key to successful privatization is to create a clear legal framework that ensures public control when required but protects the privatized companies from everyday public intervention.

The first step toward privatization is to transform the utility companies into “economic companies” owned by the municipality. The municipal bodies in this phase reduce their everyday intervention into the conduct of business, while retaining the right to determine strategic objectives and decisions and keeping control over personnel matters, for example, the appointment of directors and boards of supervision. The next step is the preparation of a privatization strategy, where the main aim is to involve professional investors who are looking for long-term markets for their products. A small minority of the shares can be sold to workers and management. It is only possible to get public support for the privatization of utility companies that bring a profit in the short run. Finally, privatization through the stock exchange is not a feasible method in the present privatization process.

One of the crucial questions is how and to what extent to keep control over the price of services after privatization. This is a difficult question that has different answers depending on the type of the utility service: the prices of some are still state controlled (energy), others are under local government control (district heating, water, sewage, and public transport), while some are basically uncontrolled (public baths). The main method for retaining control over prices is to keep a majority of the shares. There are, however, other methods, for example, selling a majority of shares but keeping a golden share that grants special rights to the local government.

There are good examples of successfully completed privatization. One is the gas company, where a minority of shares were sold to a German company. Another is the pharmaceutical company, where the majority of shares were sold to Hungarian investors. Last year, the privatization of the Budapest Water Works and the sewage treatment plant was

completed. A packet ensuring 25 percent plus one vote in each of the two companies was bought by two French-German consortia, respectively. The privatization of the three major utility companies brought a total of 300 million USD to the Budapest municipality. This year will see the privatization of the Budapest Public Area Maintenance Company, followed by the privatization of the Budapest Distance Heating Company and the Budapest Fun Fair, both in 1999.

It must be reemphasized that in the case of Budapest, the sale of public utility companies is not motivated by political arguments or a general fiscal crisis. The revenue is, of course, important to the municipality because it helps with balancing the budget, but the main motivations are to ensure the necessary investments for a long-term period and to improve the efficiency of the company. Both aims serve the interest of the residents as well.

Summary and Recommendations for the Future

One of the greatest achievements of the new political system is the empowerment of local governments. Local politicians and ordinary residents recognize that it is now possible to influence the future of their communities. The transfer of state property to local governments and the creation of a stable legal framework for their independence are cornerstones of a new philosophy of political power.

The task of the next decades is to elaborate further this new system of local democracy, which includes the following important responsibilities:

1. to decrease the volatility of central regulations, to create a more stable financial framework for local governments, and to give more financial resources to local governments;
2. to reconsider the role of planning, to use incentives to make local governments interested in cooperating on issues of regional interest, and to develop ideas with potential spill-over effects;

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3. to continue the search for a reasonable balance between the local government and the market in regulating and providing utility services—a balance between assuring equity and efficiency through privatization and decentralization.

These are the general problems, and it must be emphasized that there are no universal solutions. Also, the resulting models (the role of state control, the level of cooperation between local governments, and the role of the public and private sectors in providing utility services) can be different in individual countries according to their special historical, political, and economic circumstances. Hopefully, the future of Central and Eastern Europe will bring the stabilization of political, legal, economic, and financial issues. In this process, the stabilization of local government will be one of the most important foundations on which other reform processes can be based.