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Regional policy in the Central and East European countries prior to the eastward enlargement of the EU, with special focus on regional policy developments in East Germany

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**Regional policy in the Central and East European countries prior to
the eastward enlargement of the EU, with special focus on regional
policy developments in East Germany**

by

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Abstract:

This paper examines the development of regional policy in a selection of the EU accession states of Central and Eastern Europe, with consideration also of the regional policy experiences in the East German Länder since 1990. The paper focuses on conceptional issues relating to regional policy development, in particular the choice of regions to obtain assistance, the definition of the aims of regional policy in the framework of national strategies and the application of regional policy instruments.

JEL-classification: R 58; F 15; Keywords: EU enlargement, Regional Policy, Czech Republic, Hungary, Poland; East Germany

1. Introduction

The EU accession states from Central and Eastern Europe face major challenges in terms of regional policy. The transition from former planned economies to market economies has revealed disparities in regional development which were previously ‘disguised’ by price formation under the planned economy, centralised investment control and large-scale isolation from international markets. National economic policy-makers have in the meantime turned their attentions to the regional economic problems that have emerged and efforts are being made to develop regional policies. Academic studies and EU evaluation reports indicate that progress is being made towards developing a modern regional policy in the accession states. However, the process is apparently not without its problems. This is shown in the fact that the regional policy section of the accession negotiations has not yet been concluded with any of the accession states, even those belonging to the “first wave” of applicant countries (Czech Republic, Estonia, Hungary, Poland and Slovenia) (State 2001).

This paper analyses the conceptional structure of regional policy in selected accession states. The focus is on conceptional issues as whether or not these are resolved will determine the success of efforts towards cohesion in the member states and in the EU as a whole. At present the EU perspective is dominated by the need for action to achieve the legal, administrative and budgetary criteria for EU accession. These challenges can however be met in the medium term. This is also borne out by the experience of the new East German Länder since 1990 in terms of regional policy. Administrative problems encountered in dealing with national and European regional assistance could, for example, be solved relatively quickly with administrative assistance from the old Länder. However, the question as to the best regional policy approach and the most suitable instruments to implement it remains a sometimes controversial topic for academic and political debate in East Germany. The following assessment of regional policy systems in selected Central and East European accession states will therefore also consider the East German experience in this area. This paper will only examine selected countries from the “first wave” of applicant countries, i.e. Poland, the Czech Republic and Hungary. Regional policy in Estonia and Slovenia, which are also among the group of “first wave” applicants, will be analysed in the future course of the research project.

This paper is based on an analysis of academic literature on regional development problems and regional policy in the accession states, as well as of government

publications from these countries about the structure of their regional policy. It also draws on European Commission reports on regional development in the enlarged EU and the status of regional policy development in the accession states.

2. Overview of regional economic status

Existing regional economic problems form a starting point for establishing the regional policy measures required. The scope of this paper only allows for a very brief outline of the major regional strengths and weaknesses in the accession states, based on an analysis of relevant literature (see Barjak et al. 2000; Barjak 2001; Blazek and Boeckhout 2000, Cervený and Andrlé 2000; Cséfalvay et al. 1997, European Commission 2001; Gorzelak 1999, 2000; Hrich and Larischová 1999; Horvath 1998, 2000; Deutsches Institut für Wirtschaftsforschung et al. 2001). The patterns of regional development in the accession states under consideration here have several features in common: a West-East gap in terms of development within the countries themselves associated with a relatively favourable economic situation along the western borders, a concentration of regional development problems in the so-called old industrial regions and a range of rural regions, and a generally positive regional economic situation in the metropolis regions (following European Commission 2001: 23).

- A *West-East development gap* can be noted in all three accession states. In the Czech Republic, unemployment in Moravia was double that in Bohemia by the first half of the 1990s (Blazek and Boeckhout 2000: 306). Similarly, the western part of Hungary including Budapest and its surrounding areas is in a better economic position than the east. Around 80 % of foreign investment takes place in the western regions of Hungary and in the Budapest region (Horvath 2000: 124). In Poland too there is a clear West-East economic gap. This is partly due to differing socio-cultural conditions that have emerged for historic reasons, but also to industrialisation processes in the past (Gorzelak 2000: 156 f.). In Germany, the regional economic situation is characterised by a considerable West-East gap in economic capability. Since 1996 per capita GDP in East Germany has remained around three-fifths of the West German level. In 2000 unemployment in East Germany was about 2.2 times higher than in West Germany (Deutsches Institut für Wirtschaftsforschung et al. 2001: 122, 125). The differences in development within East Germany are smaller than those within West Germany (Barjak et al. 2000: 43).

- *Proximity to the western borders* is seen as an important factor in explaining the comparatively more favourable economic situation in the western regions of the three accession states (on this and the following observations, see European Commission 2001: 23). The western border regions have benefited from the step-by-step opening of the borders since 1989. Infrastructure provision, a qualified workforce and low employment costs all represent locational advantages. Cross-border tourism and “shopping tourism” also have positive effects. The western regions of Hungary and the Czech Republic have succeeded in attracting investment. The regions on the western border of Poland should also be noted for their diversified economic structure and a fairly high business density, although there is high unemployment in this area. The East German regions along the provincial borders to the old Länder have been able to release the strain on their labour markets through commuter networks directed towards the west (Barjak 2001: 75-81). They have also been able to attract commercial investors, above all where there are well-developed national transport networks.
- A severe regional problem area for all three accession states is posed by *regions with old industries* which have experienced major difficulties in terms of structural adaptation following the transition to a market economy and have a high rate of unemployment. In the Czech Republic these old industrial areas particularly include parts of northern Moravia (around Ostrava) and northern Bohemia which were once centres of mining and heavy industry (Cervený and Andrle 2000: 95, Hrich and Larischová 1999: no page ref.). In Hungary the industrial problem areas are in the north and the north east (e.g. Borsod-Abaúj-Zemplen) (Csévalvay et al. 1997: 169 ff.). Among the Polish industrial regions with structural adjustment problems are Lodz (textile industry), even though an apparently successful modernisation policy was implemented in this region, and Katowice in Upper Silesia, where the restructuring process is not yet complete and there are massive job cuts (Gorzelak 2000: 160). In the East German Länder too there is a group of 30 (of an overall 112) counties [*Kreise*], above all old industrial locations, which are marked by considerable economic weakness and a sharp fall in employment. At the same time, industrial investment in this group of counties is above average. These counties are in Saxony-Anhalt, south

Brandenburg and the eastern part of Mecklenburg-Vorpommern (Barjak et al. 2000: 44 ff.).

- *Agricultural regions* form the second group of problem regions in the accession states. These are to be found above all along the eastern borders of these countries (European Commission 2001: 23). In the Czech Republic the problem regions are primarily poorly developed rural areas which received subsidies under the conditions of the planned economy (Hrich and Larischová 1999, no page ref.). In Hungary, rural locations in mountain areas with poor infrastructure and therefore few alternative employment opportunities pose the main regional problems (Horvath 2000: 117). With respect to Poland, academic comments point to an agricultural structure based on smallholdings in the south east of the country. These are above all subsistence economies. This is said to be linked to high levels of hidden unemployment (Gorzelak 1999: 137 f.).
- The *metropolis regions*, particularly the *capital cities*, have the best economic situation in all three accession states. Unemployment is considerably lower than the respective national averages, mainly because of the role of the service sector. The metropolis regions are in a favourable geographical location, enjoy a high level of investment and advantages in terms of human capital supply and particularly good infrastructure (European Commission 2001: 23). The status of the remaining towns varies in the different countries. Typical for Poland is polycentric settlement with good conditions in the higher education sector (Gorzelak 2000: 157 f.). By contrast, Hungary has monocentric settlement marked by the dominance of Budapest and a discrepancy between the centre and the periphery (Horvath 1998: 6). In East Germany too the economic situation of the urban regions is relatively favourable. This has been helped in particular by positive developments in the areas surrounding the towns in the course of suburbanisation (Barjak et al. 2000: 46-55).

From the above it is clear that all three accession states have on the one hand regions with relatively good locational conditions, particularly the metropolis regions and the regions along the western borders, but on the other hand industrial and rural problem regions. The question is therefore whether regional policy should concentrate its resources primarily on those regions with the best growth perspectives, support the weakest regions, or combine both strategies, that is growth and equalisation. The issue

of the spatial priorities of regional policy is to a certain extent also part of the academic debate in East Germany (Rosenfeld et al. 2001: 375 f.). Against this background, section three below will deal with the status and development of regional policy in the three accession states under consideration as well as in the East German Länder. The aspects covered in this section will be the selection of regions to receive assistance (3.1), the definition of aims in the framework of regional policy strategies at national level (3.2) and finally the regional policy measures applied (3.3).

3. Status and development of regional policy

3.1 Selection of regions to receive assistance

An important element of regional policy is the choice of areas to receive particular support from the measures applied.

Since 1998 the *Czech Republic* has operated a process of selecting regions to receive assistance that is strongly oriented towards EU practice in this area. The distinction is made between two sorts of regions to receive assistance: a) so-called “structurally afflicted regions”, and b) “lagging regions (economically weak regions)” (Regional Policy 1999: 2). Category a) concerns above all highly urbanised industrial areas which are undergoing a restructuring process and have high unemployment. The indicators used for this category are the level and development of industrial employment, the unemployment rate and business density (on this and the following information, see Folprecht 1999: 128-130.). Category b) mainly comprises economically weak rural areas. The indicators used to select type b) regions are the unemployment rate, tax revenue, the average wage, the share and development of employment in the agricultural sector and population density (ibid). The diagnostic units are the counties. The indicators are combined to form a common indicator. The political stipulation applies that the regions receiving assistance should contain no more than one fifth of the population. 21.4 % of the population live in the areas delimited in this way (ibid: 129 f.).

In *Hungary* too the choice of regions to receive assistance in the framework of regional policy is aligned with the principles of the EU Structural Funds (Horvath 2000: 124). The distinction is made between four types of area: a) “*Socio-economically underdeveloped regions*”, b) “*Areas of industrial restructuring*”, c) “*Under-developed rural areas*”, and d) “*Regions facing long-term and significant employment*” (ibid: 124-

126). A complicated indicator based on 28 economic, demographic and infrastructural sub-indicators is applied to select those regions falling into category a) (Horvath 2000: 124, Horvath 1998: 45 f.). To select type b) regions, indicators of the share and development of industrial employment and the unemployment rate are used (Horvath 1998: 46). Income tax revenue, a so-called migration assessment, a town/countryside coefficient, the share of employment in agriculture and the unemployment rate are all indicators used to determine the problem regions of type c) (Horvath 2000: 126, Horvath 1998: 46). The regions falling into category d) are above all those with structural difficulties and obstacles to mobility for business commuters (Horvath 2000: 126). The border regions represent a further category requiring support (ibid). The list of regions eligible for assistance was approved by the government in 1998 and should be updated annually. The political stipulation is that no more than a third of the population of the country should live in the regions receiving assistance (Bachtler et al. 1999: 91). 33.5% of the population was living in such regions in 1998 (Horvath 1998: 46). In addition to the above-mentioned categories of problem regions eligible for assistance the Hungarian National Regional Development Concept provides for the establishment of so-called enterprise zones (Bachtler et al. 1999: 91).

In *Poland* the government concerned itself with certain regions on account of the scale of problems to emerge there (Bachtler et al. 1999: 109). These included the old industrial region of Katowice in Upper Silesia (coal mining) together with the problem regions of Lodz (textile industry) and Walbrzych (structurally weak rural region, coal mining). On account of increasing labour market problems the Polish Council of Ministers also approved a list of “areas threatened with particularly high structural unemployment” (Bachtler et al. 1999: 110, with reference to COP, 1995), which has subsequently been updated. As a result of this list 18% of the population and 28% of the unemployed in 491 of 2,489 local authorities received assistance in 1995 (ibid: 110, 101). Moreover, the above-mentioned old industrial areas as well as under-developed rural areas and monostructural locations received support from the Phare STRUDER programme (ibid: 110).

In the framework of the so-called joint programme on “Improvement of the regional economic structure” (German abbreviation: GRW), the central instrument of German regional policy (see section 3.3), an indicator-based system to differentiate between regional eligibility for assistance was only introduced in the *East German Länder* at the

beginning of 1997. Before this all of the East German regions had received the same level of assistance since 1990. Since 1997 two types of region have been distinguished with regard to regional assistance in East Germany: structurally weak regions (A-assistance areas) and structurally stronger regions (B-assistance areas) (Hassold and Jung: 65). The latter group includes in particular a range of urban regions (and their surrounding areas). This regional delimitation was firstly carried out for the period 1997-1999 and has since been updated for the period 2000-2003. In 1997-1999 the population ratio between the A and B regions was 60:40 and since 2000 has been 50:50 (ibid: 64 f.). The regions are classified using a common indicator composed of four part indicators: the under-employment level, the per capita income of employed persons liable to social security contributions, an infrastructure indicator and employment forecasts (ibid: 64). The diagnostic units are so-called travel to work areas delimited according to commuter networks.

All of the accession states under consideration here have in the meantime marked out statistical regions based on the EU requirements for the classification of NUTS II level regions. As of 1 January 2000 the 14 regions in the *Czech Republic* have been grouped into 8 territorial units corresponding to NUTS II level. The 14 present regions are at NUTS III level (Regular Report Czech Republic 2000: 80). In *Hungary* seven statistical planning regions were created in 1998 at NUTS II level (Regular Report Hungary 1999: 46). These comprise the capital Budapest and 19 counties. Each of the seven regions is linked to a so-called regional development council. In *Poland*, a June 2000 ordinance from the Council of Ministers defined the 16 new voivodships as NUTS II level units and the 44 groups of powiats at NUTS III level (Regular Report Poland 2000: 66 f.). Apart from in Poland, where the NUTS II level is identical to the middle level of self-government, a potential problem here is that additional administrative structures have to be introduced in the other accession states at NUTS II level with the task of planning and implementing regional policy programmes. As a result there could be coordination problems with the committees of the self-governing regional authorities as these bodies have not been established at NUTS II level.

To sum up so far, when it comes to choosing the regions to receive assistance in the framework of regional policy in the three accession states as well as East Germany, there is a clear trend towards supporting regions where the economy is in particularly bad shape. One can raise the criticism that none of the indicator systems are linked to

the strengths of a region, for example existing innovation potential or entrepreneurial initiative. The academic debate on the aims of regional policy has shown that despite turning to practical regional policy to achieve the goal of equalisation the traditional debate on growth versus equalisation is by no means over (on this, see e.g. Gorzelak 1998a: 314-316; Maier 1999: 135, 141; Rosenfeld et al. 2001: 375 f.). The following section will examine the explicit goals of regional policy strategies in more detail.

3.2 Defining goals in the framework of regional policy strategies

With the start of reforms towards a market economy, the accession states under consideration here did not at first consider the establishment of regional policy to be an urgent priority for economic policy.

In the *Czech Republic*, little attention was paid to regional policy until 1996. Sectoral policy areas were predominant at first, which also had a regional impact (e.g. environmental and agricultural policy) (Blazek and Boeckhout 2000: 303). However, the regional policy measures of the various ministries were not well coordinated (Regional Policy 1999: 2). The basic goals of regional development in the Czech Republic are the balanced development of individual regions, the elimination of disparities in development between regions and the support of those regions where there is suboptimal use of development potential (Folprecht 1999: 124). In the meantime, the Czech Republic has drawn up a Regional Development Strategy (on this and the following details, see Blazek and Boeckhout 2000: 313). This is the comprehensive national programme document for regional policy strategies. One of the aims of the Regional Development Strategy is to help coordinate the various policies that have an impact on the regions. The document is based on the division into the 14 new self-governing regions. The Regional Development Strategy comprises a regional and sectoral diagnosis from which the strengths and weaknesses of the regions and sectors should emerge. In addition, it contains a strategy for future spatial development together with priorities and measures (Folprecht 1999: 125). It earmarks certain regions to receive special regional assistance from the state (ebd). Moreover, in January 2000 the Czech government adopted the National Development Plan (NDP) for the period 2000-2006. This is specially targeted towards making use of the pre-accession assistance from the EU (ISPA, SAPARD, Phare II) (Blazek and Boeckhout 2000: 313). Academic commentators point out one of the chief difficulties to emerge in the drafting of both programme documents as the conflict between, on the one hand, the strategy of quickly

bringing the country up to the economic standard of the EU and, on the other hand, the goal of eliminating regional disparities (ibid: 314).

In *Hungary*, the adoption of the law on Regional Development and Physical Planning marks a caesura in the development of a new regional policy (Downes 2000: 332). Regional policy measures did exist before 1996 but from a current perspective “were ad hoc, reactive and uncoordinated” (Horvath 1999: 95) measures, the responsibility for which was spread between various levels (ibid). The creation of a legal basis was followed by work on regional policy concepts. In March 1998 Parliament adopted a National Regional Development Concept. The following tasks were highlighted in the concept: a change of spatial structure to promote growth, innovation and competition, the reduction of regional differences in economic and social development opportunities, the campaign against social problems in the weakest regions, and the mobilisation of regional development potential (Horvath 1998: 36 f.). The stated medium term priorities were the elimination of regional crises and also the assistance of regions with positive development potential through the removal of institutional and technical barriers to growth and the establishment of industrial zones and industrial parks (ibid: 37). This dual approach of supporting both crisis regions and advanced regions is emphasised in the academic literature on the National Regional Development Concept (Downes 2000: 333). In 2000 the so-called Széchenyi-Plan for economic development was produced at national level. One of the features of the Széchenyi-Plan is a programme to develop the regional economy. This programme too reflects a combined goal of growth and equalisation in regional policy. The formation of networks is regarded as a basic principle of regional development (Széchenyi-Plan, 2000: 30). A National Development Plan is due to be completed (Regular Report Hungary 2000: 62).

In the view of the European Commission, major industries were given priority over regional planning in *Polish* regional policy before 1990 (Agenda 2000 Poland 1997: 29). The country took an important step towards developing a new regional policy with “The Concept of the Spatial Policy of the State”, proposed in 1999 by the Government Centre for Strategic Studies (on this and the following details, see Gorzelak 1999: 141). This concept placed more explicit emphasis on the goal of efficiency than the regional policy concepts of the other accession states under consideration. The Polish concept regards the growth of regional disparities as both possible and acceptable under the assumption that the large Polish metropolis regions are most likely to improve the

economic situation of the country (ibid). This concept was regarded as a kind of counter proposal to a previously rather sectorally oriented regional policy (Brusis 2001: 236 with reference to Gorzelak 1996, 1999). The stress on the goal of efficiency can also be noted in a position paper adopted by the Polish Council of Ministers in November 1999. The paper lays down the following priorities for the Preliminary National Development Plan: the improvement of economic competitiveness through structural adjustment in industry, services, agriculture and rural areas, the modernisation of transport and environmental infrastructure, the development of human resources and employment and finally the promotion of regional development potential and efforts against the marginalisation of regions (Council 1999: 3). It is clear from this list that the top priority is the goal of efficiency, that is to strengthen the competitiveness of the Polish economy as a whole. At the same time the support of the most disadvantaged regions is not excluded.

In *Germany*, regional policy is developed and financed jointly by Federal Government and the *Länder* in the framework of the programme “Improvement of the regional economic structure” (GRW). The goals of German regional policy are to be found in the “Law on the improvement of the regional economic structure”. The policy is only implemented in areas “in which economic strength lies considerably below the national average or threatens to fall considerably below this level” (Neunundzwanzigster Rahmenplan: 197). The GRW can also be applied in regions with major sectoral structural problems. The GRW is thus primarily targeted towards equalisation. More extensive spatial development concepts, which are more or less comparable with the national strategies for regional development in the accession states, are contained within the so-called Spatial Planning Policy. This policy aims amongst other things to achieve “...an equal standard of living in all sub-regions...”, to equalise structural and spatial imbalances between East and West Germany as well as to establish conditions for spatial cohesion in Europe (Raumordnungsgesetz, 1997: §1 (2)). The focus on the goal of equalisation should however not be confused with the aim of achieving complete convergence in terms of development.

The conceptional basis for the use of the European Structural Funds in the new *Länder* is provided by the Community support frameworks and the Operational Programmes. The regional development plan found in the Community support framework for the period 1994-1999 (Europäische Kommission 1995: 25-30) gave prime importance to

the “global goal of rapid growth” (ibid: 25). East Germany as a whole was regarded as a problem region.

To sum up, the available literature on regional policy strategies and plans reveals the attempt on the part of all three accession states to combine the goals of equalisation and efficiency. The emphasis however varies. The goal of efficiency is, for example, stressed the most in the Polish regional policy concepts. Yet as academic commentators from all three countries point out, the efforts to achieve these aims are not without conflict. These countries are faced with the dilemma of on the one hand having to try and quickly bring the level of national economic development up to that in the EU through high macroeconomic growth, and on the other hand having to tackle an increase in structural problems at regional level, which may in turn hinder the alignment of the respective countries as a whole with the economic conditions in the EU. The philosophy behind the assistance granted in the framework of the European Structural Funds favours the economically weakest regions. At present virtually all regions in the accession states under consideration here are classed as economically weak, that is as eligible for Objective 1 assistance from the EU. Therefore all three countries have the opportunity to support the stronger regions with growth potential along with the weakest ones. The weighting that the accession states will give to various regions when allocating the Structural Funds resources thus remains an important question for the academic analysis of the development of regional policy in these countries.

3.3 Instruments to implement regional policy strategies

In the *Czech Republic* the assistance programme introduced in 1993 for small and medium-sized enterprises (SMEs) is the main specific regional policy measure (Cervený and Andrlé 2000: 95). Depending on the type of region, the programme (“Region”) gives preference to SMEs of up to 50 or up to 250 employees (CMZR Bank 2001: 1) in under-developed areas (on the delimitation of regions see section 3.1). The programme grants interest subsidies (ibid: 3 f.). The National Programme introduced in 2000 to prepare the country for membership of the European Union provided special assistance in that year for SMEs not only in both types of under-developed area but also in municipalities with less than 2,000 inhabitants and in nature reserves (Czech Republic, 2000: 268). Alongside the above-mentioned business-related assistance programmes there are special aid programmes for individual problem regions affected by particular structural problems and high unemployment. In 2000 the Czech Republic

had two such aid programmes – one for north west Bohemia (location of lignite industries) and one for northern Moravia (mining, metallurgy and heavy machinery) (ibid: 267). Four groups of measures are envisaged for these two regions: a) support for industrial enterprises, b) assistance for SMEs, c) the widest possible access for businesses to funding opportunities in the form of so-called micro-loans, and d) support for the development of local business-related infrastructure (ibid). As well as the “Region” programme and the programmes for problem regions there were or are various sector-related policies with a (non)specific regional impact, e.g. in terms of agricultural, environmental, labour market and transport policy. In addition, state financial allocations to the municipalities also have a regional effect (Blazek and Boeckhout 2000: 303). Academic commentators refer to the weak horizontal coordination between these various policy areas which have an impact on the regions (ibid: 307). Moreover, the funding supply is deemed low both at central state and regional level (ibid: 308).

In *Hungary* two budget lines for regional policy measures were established in 1997 on the basis of government decisions. One of these is known as the Targeted Budgetary Allocation for Regional Development (TBARD). The TBARD programme builds on a so-called Regional Development Fund (RDF) previously in operation. It aims amongst other things to help eliminate regional disparities and to integrate the various sector-related policies into regional programmes (Downes, 2000: 341 f.). In the framework of the TBARD, subsidies, loans and interest subsidies are allocated to regions eligible for assistance (Horvath 1999: 121). The TBARD programme is intended to support a) business investment to create jobs and the renewal of production structure, b) business-related infrastructure projects, e.g. innovation and start-up centres, industrial parks, c) the preparation of regional and local development programmes, d) business-related infrastructure measures of regional significance, e.g. in the areas of energy, transport, water supply and sewage disposal and telecommunications, e) local economic projects, and f) projects to restructure agriculture and for rural areas (Horvath, 1999: 121 ff.). The amount of assistance granted to achieve these goals varies according to the four different types of problem region (see section 3.1) as well as the type of instrument applied (e.g. interest subsidy and non-repayable assistance) (ibid: 122 f.). The second budget line is called Spatial Equalisation Financial Assistance (SEFA). This programme grants resources to promote local investment in areas eligible for regional policy assistance (Downes 2000: 342). The allocation of resources from this budget line is

decided at decentralised level by the county development councils, which are aware of concrete regional problems (ibid, Horvath 1999, 121). In 1998 HUF 20 bn. was earmarked for regional development purposes, of which HUF 14.5 bn. was to be allocated at decentralised level through the counties (Horvath 1999: 123 f.). Resources were to be allocated to all counties except Budapest. However, those regions deemed particular problem regions (e.g. Borsod-Abaúj-Zemplen and Szabolcs-Szatmár-Bereg) received an especially high level of resources both in absolute and per capita terms (ibid: 124, table 5). In addition, tax relief is available for businesses. This is granted to promote investment in development areas, in parts of the country with particularly high unemployment and in enterprise zones (Downes 2000: 342). Despite the wide range of instruments the Hungarian government has up to now judged the impact of regional policy measures to be fairly moderate and it considers a more intense concentration of resources and a better integration of the financial instruments spread between various sectors to be necessary (Ministry of Foreign Affairs Hungary 2000: 1, 5 f.).

In 1991 and 1992 special support for the unemployed persons and for local businesses was granted as a regional policy measure in *Poland* (Kozak 2000: 320). To this was added state infrastructure investment in regions with high unemployment (Gorzelak 1998b: 163). As a result of the pressure of employment problems special government representatives were appointed for the Walbrzych and Lodz regions (on this and the following details, see ibid). A special aid programme was also set up for Walbrzych (coal mining industry). The government later had to turn its attentions to the voivodship Katowice (a coal mining location). The central government signed a so-called voivodship contract with Katowice. This comprised resources to a value of PLN 40 million in 1996 and PLN 30 million in 1997. The voivodship had to co-finance the resources allocated (ibid). The resources granted in the framework of this contract were however considered too low to enable effective restructuring measures (ibid). The expert opinion is that the newly established regions (*author*: this obviously means the voivodships) should decide themselves in future how the potential of the regions can best be exploited (Gorzelak 2000: 164). According to this view, the central government should only be involved with the regions if this is in the interests of the whole country, e.g. in the area of principle transport links, education and research and cross-border cooperation (ibid). The share of these special regional policy tasks in total state expenditure was estimated at 0.10 % for 1993 and 0.17 % for 1998 (Kozak 2000: 324 f.,

with reference to Gorzelak 1998). There seems however to be a problem in that a range of sectoral policies also have a regional effect without the flow of resources being sufficiently transparent and coordinated (Bachtler et al. 1999: 108; Gorzelak 2000: 163). The following regional policy instruments are applied in Poland: a) financial assistance for businesses in problem areas in the form of subsidies, loans, tax relief, write-off benefits and subsidies linked with job creation, b) measures to improve technical infrastructure, c) so-called “soft” (intangible) measures in the form of advice, information, education, training and research and development assistance (Bachtler et al. 1999: 108). Finally, Poland has set up special economic zones in regions with unemployment (ibid).

In *Germany* the distinction is usually made between regional economic policy in the narrow sense of the term and the so-called sectoral policies with regional effect. The former has a targeted influence on spatial factor allocation, whilst the latter are not specifically oriented towards the regions but nonetheless have a regional impact. Below follows a brief outline of the instruments applied in the so-called joint initiative “Improvement of the regional economic structure” (GRW) which applies to regional economic policy in the narrow sense (on GRW, see Neunundzwanzigster Rahmenplan 2000). The GRW serves a) to promote business investment, and b) to promote investment in infrastructure. The elements promoted under a) include real capital investment, advice services, further training for employees, the development of human capital and research and development in SMEs. Real capital investment is promoted through non-repayable grants, the level of which depends on business size and the extent of the regional problems. The grants are awarded on a discretionary basis. The aid for infrastructure under b) includes support for small-scale business-related infrastructure investment, e.g. the establishment of trading estates, the development of industrial areas, the construction of technology and science parks as well as supply and disposal facilities in connection with business settlement. The first three years of allocations from the European Regional Development Fund (1991-1993) all went towards co-financing the GRW, that is supporting industrial and business-related infrastructure investment. In addition to the GRW, businesses from selected branches (industry and production-oriented services, craft businesses, SMEs in wholesale and retail trade) in the new *Länder* are all entitled to a tax-free investment subsidy which is granted pretty much “automatically”. Moreover, SMEs have recourse to various loan

schemes with favourable interest conditions as well as debt guarantee programmes and equity capital. After more than 10 years of operating assistance programmes for the new Länder the academic debate is moving towards a phasing out of automatic assistance through the investment subsidies by 2004 (Deutsches Institut für Wirtschaftsforschung et al. 1999: 223). Instead regional economic promotion should be continued, as amongst other things its decision-making process is considered to allow a stronger selection of businesses or regions eligible for assistance (Ragnitz 2001: 189). After 2004 one focus of assistance in the new Länder should be the development of infrastructure, where major deficits still exist in East Germany.

To sum up, traditional regional policy instruments are applied in all of the accession states under consideration to promote business, infrastructure and human capital. The available literature allows no conclusions to be drawn with regard to the respective weighting of the individual areas of assistance. One problem can be seen in the continued lack of coordination between national strategies for regional policy in the narrow sense of the term and the other sectoral policies which have a regional impact. This problem is especially significant in view of the fact that experts consider the amount of financial resources available for regional policy to be fairly small.

4. Conclusion

Increasing regional development problems - particularly in old industrial and rural regions - coupled with the perspective of EU accession have led to a more intense development of regional policies in the Central and East European countries under consideration. Since the start of accession negotiations with the EU, these countries have been trying to develop regional policies largely compatible with the practice of the EU Structural Funds. The attempt to adapt to European regional policy legislation can be seen particularly in the method of selecting areas to receive assistance, which in the Czech Republic and Hungary already closely follows EU practice. Yet in the process little attention is paid to indicators which could identify growth potential. The use of regional policy to promote macroeconomic growth can however play an important role in the accession states. These countries are, after all, faced with the dilemma of seeking to align their level of economic growth as a whole with the EU average on the one hand, but on the other hand having to face an increase in regional disparities and severe problems in certain regions. In practice, regional policy in these countries will end up as a compromise between the goal of growth and that of equalisation. However, as it is

anticipated that virtually all regions in the accession states will benefit from the EU Structural Funds, these countries have the chance to concentrate the resources granted on those locations with the best potential for growth. In the East German Länder, there is in any case increasing criticism of spreading financial assistance by the “watering can” principle.

The regional policy instruments applied are still considered weak compared to the sectoral policies, and experts from these countries see the coordination between the various political areas with an impact on the regions as a major shortfall. The problem of coordinating the application of financial resources from various political sectors can however only be solved at decentralised level, as it is only here that there is awareness of the concrete requirements in terms of regional development. For this reason it will be important for future research to consider how the capacity at decentralised level to develop, implement and fund regional development programmes is obtained and how it is being extended.

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