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(CORVINUS UNIVERSITY OF BUDAPEST)*

# **SOCIAL RESOURCES IN LOCAL DEVELOPMENT – CONFERENCE PROCEEDINGS**



**SZÉCHENYI PLAN**



**HUNGARY'S RENEWAL**



The project was realised through the assistance of the European Union, with the co-financing of the European Social Fund.

Corvinus University of Budapest  
Institute of Sociology and Social Policy

Social Resources in Local Development – Conference Proceedings

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**Design and layout:** © Ad Librum Ltd. ([www.adlibrum.hu](http://www.adlibrum.hu))

**Printed by:** Litofilm Ltd. ([www.litofilm.hu](http://www.litofilm.hu))

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PUBLICATION OF THIS VOLUME WAS SUPPORTED BY  
TÁMOP 4.2.1/B-09/1/KMR-2010-0005.

ISBN 978-963-503-492-5

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*CONFERENCE PROCEEDINGS***

BUDAPEST, 2012



# CONTENTS

<b>Forward</b>	<b>7</b>
Péter Futó	
<b>Introduction – What is Local Development?</b>	<b>11</b>
Paul Blokker	
<b>The Constitutional Premises of Subnational Self-Government in New Democracies</b>	<b>19</b>
György Lengyel, Borbála Göncz, and Éva Vépy-Schlemmer	
<b>Temporary and Lasting Effects of a Deliberative Event: the Kaposvár Experience</b>	<b>43</b>
Éva Perpék	
<b>Formal and Informal Volunteering in Hungary: Similarities and Differences</b>	<b>67</b>
Andrew Ryder	
<b>Big Bang Localism and Gypsies and Travellers</b>	<b>89</b>
Péter Futó and Edit Veres	
<b>Assessing the Co-operation Willingness and Ability with Hungarian Small Business Networks and Clusters</b>	<b>109</b>
Tamás Bartus	
<b>Compensation for Commuting in the Hungarian Labor Market</b>	<b>123</b>



# FORWARD

## CONFERENCE PROCEEDINGS - SOCIAL RESOURCES IN LOCAL DEVELOPMENT

It was the intention of the Institute for Sociology and Social Policy at the Corvinus University Budapest in collaboration with the University of Trento to reflect the breadth of local development studies in the conference it staged in June 2011 '*Social Resources in Local Development*'. The event was in the framework of 'Efficient Government, Professional Public Administration and Regional Development for a Competitive Society' which is part of the TAMOP Project 4.2.1/B-09/1/KMR – 2010-0005 (Social and Cultural Resources Development Policies and Local Development Research Workshop led by Professor Zoltán Szántó). All the papers which feature in this volume were presented at the workshop. The research activity behind these papers (with the exception of Blokker) was supported by the aforementioned TAMOP project. The event was attended by a range of international participants including Erasmus Mundus students from the University of Trento and Corvinus students taking the MA in Local Development. It is hoped that this publication of conference proceedings highlights some current and key issues and controversies in local development research and academic debate.

Notions of active and inclusive public input in local development are popular and now much promoted concepts but are something of a new phenomena in Central and Eastern Europe given the history before the 'transition' of a centralised and command control society in what was known as the soviet bloc. Paul Blokker (University of Trento) in his paper '*The Constitutional Premises of Subnational Self-Government in New Democracies*' discusses the significance and role of subnational democracy in the context of new European democracies in flux. Blokker demonstrates that in a context of fragile democratic traditions, the displacement of national sovereignty, and increasing civic adversity to national politics, local forms of representative and direct democracy might – in advantageous circumstances – help to re-attach citizens to the democratic process. Furthermore, enhanced civic input into local and regional policy-making may enhance local capacities and strengthen forms of local cooperation. Subnational democracy might therefore work as a partial antidote to problems of European democracies, and in particular in the post-socialist context in Hungary, the Czech Republic and Poland.

Unemployment is also something of a new phenomena for post-socialist states in transition society. György Lengyel, Borbála Göncz, and Éva Vépy-Schlemmer (Corvinus University) in their paper *‘Temporary and lasting effects of a deliberative event: the Kaposvár experience’* outline the perceived benefits of deliberative polling as has been demonstrated by the work of the authors in the Kaposvár region where deliberative polling was applied to gain local residents’ insights into unemployment and related issues of the local economy. The authors verify that participants proved to be better informed on average following this exercise. Furthermore, attitudes concerning economic competitiveness became more open while solidarity and tolerance towards the unemployed also increased. However, the authors strike a note of caution as to the long term impacts of deliberative polling. One year later, as part of a follow-up survey the authors visited the participants again (as well as a control sample of non-participants) and measured the stability and change of their knowledge, opinions and evaluation of the event. The authors argue that the majority of the opinion changes proved to be temporary after the event, but some of them were lasting.

In transition society where the state and social policy has adopted a less overbearing role the emergence of the ‘volunteer’ has also presented something of a new development. Again touching upon themes of participation Éva Perpék (Corvinus University) in her paper *‘Formal and Informal Volunteering in Hungary: Similarities and Differences’* explores volunteerism in Hungary and focuses on its formal (organizational) and informal (non-organizational) statistical differentiation. The paper concludes that organizational volunteerism is a more effective tool of community participation and local development. First, it fosters better regularity of the activity and attracts more professional and skilled volunteers. Finally, the paper notes that formal volunteers are moved by new or instrumental motivations which could mobilise even greater numbers in the present and future.

Andrew Ryder (Bristol University and Corvinus University) in his paper *‘Big Bang Localism and Gypsies and Travellers’* raises concerns about one form of participation in local development which has been dubbed as ‘localism’ and although based on data collected in the UK raises concerns about supposed ‘local democracy’ and decentralisation and its effect on equality which is of relevance to many European democracies. Concerns are raised in the paper, which question the justification for rejecting what could be termed as ‘statist’ approaches where the state champions and intervenes to protect the interests of the vulnerable despite the possible opposition of the majority. The paper thus raises important points of



relevance in the west and east of Europe where statist governance is increasingly being questioned and rejected.

Of course another marked feature in local development in transition society is the move towards a Market Economy. Polányi (1957) argued that pre-modern economic systems were ‘embedded’ in social relations. Under modern capitalism it has been claimed that economic action is largely disengaged from social obligations and driven by individual gain in a depersonalized economic framework which both creates a loss of autonomy and a process of *proletarianisation* for large numbers of the populace (Gudeman, 2001). Granovetter and Swedberg (1992) however argue that Polányi and his followers have ‘over sociologised’ their analysis and that in fact interpersonal relations are embedded in the modern economy through social and professional networks, with personal reputation and trust holding currency in a range of situations so that they impact hugely on both self-employed individuals and big businesses’ fiscal stability. Peter Futo and Edit Veres (Corvinus University) assess the role of inter-firm linkages in business networks in their paper *‘Assessing the co-operation willingness and ability with Hungarian small business networks and clusters’*. The authors note that co-operation is an important component of social capital. The article focuses on Hungarian clusters as special types of business networks and presents a series of working hypotheses on factors that facilitate inter-firm co-operation and influence the strength and stability of inter-firm ties. Another set of hypotheses formulates that the performance of these networks and of their member companies is influenced by the quality of co-operation between its members.

Tamás Bartus (Corvinus University) returns to another feature of transition societies namely unemployment and what the implications are when interventionist and compensatory models are not in place, in *‘Commuting time, wages and reimbursement of travel costs: Evidence from Hungary’*. The paper explores the hypothesis that high costs of commuting are responsible for the persistent unemployment of Hungarian villages. An attempt is made to estimate the compensating wage differential associated with commuting time using individual-level data, taken from a survey conducted among workers who have left the unemployment register and got a job in March 2001. The empirical analyses are motivated by a simple wage posting model, which predicts a positive effect of commuting time on wages and explicit reimbursement of travel expenses, which is conditional on the unemployment rate at place of work. Bartus finds that the unemployment rate in settlements where jobs are located lowers the positive effect of commuting time on wages, but it increases the probability of receiving some reimbursement of travel expenses, conditional on high unemployment at

place of work. The findings suggest that wages paid by employers located in high unemployment areas do not compensate for costly commuting. The study therefore supports the hypothesis that persistent high costs of commuting, relative to wage advantages contribute significantly to unemployment.

It is hoped therefore that these conference proceedings throw into relief a number of topical and important points related to local development in relation to transition society, in particular the role and limitations and dangers of local democracy, volunteerism and participation and the balance and inter-relationship between local, regional and central government. The proceedings also contain a strong economic dimension in investigating the role of small and medium sized enterprises (SMEs) in co-operating in economic activity but also the costs of where a laissez-faire approach is adopted to unemployment and commuting. To sum up, the papers presented on this workshop address those challenges and associated development issues that are relevant for transition countries. Moreover, they recommend policy solutions which harmonise top-down and bottom-up traditions of governance. Therefore it is hoped that readers interested in local development research will find this volume stimulating.

*The editors*

## **INTRODUCTION – WHAT IS LOCAL DEVELOPMENT?**

The popularity of development studies as a subject of study, research and consultancy has grown since the early 1990s. During the last two decades the practical know-how of facilitating international development has gradually evolved into a science in its own right. In the international arena a wide range of experiences has been achieved and gathered in how to build efficient institutions for efficiently absorbing foreign aid in developing and post-socialist countries and how to facilitate the transition to market economy and to democracy. These experiences have been increasingly explained within a unified paradigm and with theoretical underpinnings.

The findings of applied and theoretical research on development studies have been increasingly published in an ever wider range of international development studies journals. Development studies as a course has been offered to yield specialised Master's and Ph.D. degrees in a number of universities. The main objective of these programmes is to equip students with the tools and expertise necessary for the formulation, implementation and management of development policies. Students of development studies often choose careers in international organisations such as the United Nations or the World Bank, non-governmental organisations, private sector development consultancy firms, research centres and other prestigious working places. As the volume of funds dedicated to aid policy increased and the planning and management of development projects / programmes have become more decentralised to the local level, the respective implementing organisations needed an ever growing number of practitioners, and the job market for development experts has further increased.

Economics alone cannot fully address the various issues raised by development policy. Development studies have increasingly relied on the concepts and integrated the ideas of political science, sociology, administrative sciences, agriculture, urban development, environment protection, cultural anthropology and other disciplines. Due to the interdisciplinary nature of the praxis of

international development processes, the planners of development-oriented Master Programmes face a difficult task: on the one hand a wide range of relevant social, economic and policy-oriented subjects must be covered, but on the other hand, at the same time these courses must also offer some focus and limitation. One way of selecting a focus is to opt for a particular integrating paradigm, for an organising theory which helps to explain the factors of development and helps to plan coherent and feasible development policies.

*Local development* is a promising choice for such an integrating paradigm. Researchers using this concept interpret the development process in the framework of the global-local duality. But local development is not only a conceptual framework for doing research. Besides offering a structure to understand and describe the complex and inter-disciplinary nature of development, local development is also a policy approach. **Local development as a policy approach stipulates that top-down development policies should be realistically complemented by, harmonised with and implemented through bottom-up initiatives.**

Development programmes of remote areas and smaller settlements that follow the local development approach may have been conceived in far away capital cities but they are sensitive to local specificities and procedures. Aid policies devised on behalf of developing and transition countries may have been elaborated in other, more developed countries, but they rely on local know how and facilitate the generation and re-generation of local economic, natural, social and cultural resources. Policies, programmes and projects of local development build extensively on the lessons learnt in other countries or regions that face similar or analogous challenges, but while applying these lessons, the specific local endowments and cultural practices are seriously taken into consideration.

*Courses and research devoted to local development studies* deal with economic, social, political and spatial processes, structures and mechanisms, which shape the welfare of communities on the local and regional level. Special attention is given to those aspects and policies of local development, which directly influence the attractiveness and competitiveness of settlements and regions. Local development courses offer an analytical framework to interpret those sectoral policies, which influence local development. Major examples of such policy fields / sectors are:

- Local Economic Development,
- Social aspects of local development,
- Legal and institutional framework, administrative and financial instruments,
- Physical environment and infrastructure development.

*Local Economic Development (LED)* during recent decades has been raised to the level of a discipline in its own right. It covers the elaboration and implementation of local strategies for job creation and investment promotion by promoting entrepreneurship, facilitating the establishment of business networks, launching initiatives to establish industrial districts, clusters, business support centres and incubation houses, promoting ecological tourism and offering micro finance in order to support the start up of small and micro enterprises.

*What it is not.* While all courses on local development courses include the teaching of economics and economic policies, development practitioners are not required to become experts of local finance, or to manage a support service of the local government. Instead, the aim of local development courses is to prepare development specialists for understanding and activating the driving forces of local economic development, to elaborate strategies and concepts of local economic development, and to implement them in the framework of interdisciplinary teamwork.

*Social aspects of local development.* The target group of those policies, programmes and projects which are aimed to improve welfare, alleviate poverty and improve education is the local population. Without understanding its demographic features, without being able to describe the stratification of local society according to ethnic, religious, educational and ownership features it is impossible analyse the impact mechanism of development oriented interventions, to plan and to implement effective measures. Also, the proper knowledge of local stakeholders is a pre-condition of involving them into decisions about local development. An important part of this knowledge is to measure poverty, to understand the attitudes of various social strata towards poverty and illnesses and to understand how local institutions and attitudes may support but also prevent local development. Students of social aspects of local development must understand the functioning of the financial funds for poverty alleviation and the eradication of illnesses, the cultural factors in local development, the role of education, national and international migration, the concept of social capital, local social networks and trust. The respective courses must conceptualise and analyse the interests of households, enterprises and public / non-profit organisations, their conflicts and the traditions of interest representation and reconciliation.

Moreover, local development policy is subjected to various moral norms and values. The interventions of decision makers obtain their proper meaning only if they serve the overarching aims of better quality of life, human development, sustainable environment, equal opportunity for social strata and genders, the inclusion of vulnerable strata of the society, a lively and pleasant settlement and

an accountable leadership. For the above reasons the study of local development must also rely on the traditions of ethics.

*What it is not.* While courses on local development courses must convey some elements of sociological knowledge, development specialists are not required to apply the theories of social stratification or the rigorous methods of social research in their everyday work. Moreover, these courses do not aim to offer training in social work, in health sciences or in the resolution of local conflicts between ethnic, religious groups, interest groups or classes. Instead, the aim of these courses is to prepare development specialists for being able to successfully co-operate with professionals of the above disciplines, to plan the relevant tasks in the framework of inter-disciplinary co-operation and to professionally contract out the respective specialised services.

*Legal and institutional framework, administrative and financial instruments.* Development initiatives and projects are implemented by particular public, private and non-profit organisations which must obey certain administrative rules. The study of local development must pay proper attention to the general principles of governance and procedures as analysed in various sub-disciplines of public administration studies and political science. Special attention must be given to citizen participation in policy making, to the principles of good governance, to the roles of non-governmental organizations, to local strategic partnerships, to public-private sector partnerships and to local impacts of decentralization reforms.

*What it is not.* While courses on local development courses must convey some elements of the above knowledge, they do not aim to offer specific legal, administrative or financial training. Instead, the aim of these courses is to prepare development specialists for being able to successfully co-operate with public servants and professionals applying the above disciplines in their daily work, and to build up inter-disciplinary co-operation with them.

*Physical environment and infrastructure development.* Courses and research efforts on local development inevitably include components dealing with the spatial – physical environment of human settlements, covering subjects such as urban development, infrastructures of transport, energy, communication and water management, moreover environment protection and the preservation of the landscape in rural and urban settings. The respective courses and research projects rely on the traditions of economic geography, regional development and rural development. The following special topics are to be addressed: feasibility and impact of cross-border nature reserves, local energy management and comparing various institutional and technical solutions for waste management.

*What it is not.* While courses on local development courses must convey some elements of the above knowledge, they do not aim at offering engineering, ecological or agricultural education. Instead, the aim of these courses is to prepare development specialists for being able to successfully co-operate with professionals of the above disciplines, to outsource specialised research and planning tasks and to interpret the results in the framework of inter-disciplinary co-operation.

*Local development strategy in the planning process.* While sector-specific plans may be narrowly defined by specialists or even enhance the role of some specific services out of proportion, local development strategies or concepts have the role of integrating sector-specific plans into a coherent document and demonstrate a certain vision on local development in the future, by harmonising diverse policy fields and vested interests. Development professionals preparing a development strategy or concept for a particular settlement or region must adapt the application of the above sectoral disciplines to the conditions and challenges of the particular locality. In most places of the world development resources can be allocated only if such documents are jointly prepared by specialists and local stakeholders, and the plan is subsequently approved in a democratic process. One of the most important aims of local development studies is to train specialists who can play a leading role in the management of the preparation of such documents, by preparing or by contracting out studies, and by facilitating consultation and the implementation of these concepts / strategies.

*A possible conceptual framework of local development („The Matrix Approach”)*

			Sector-specific policies, specific policy fields		
			Local Economic Development (LED)	Social policies, measures to develop the cohesion of the local society and social capital	Development of the physical infrastructure, urban / rural development, environment protection
			↓	↓	↓
Policy implementation procedures and constraints	Embedding policies / programmes / projects into the existing legal / institutional framework. Applying administrative and financial procedures / instruments. Improving local governance	→	Preparing local development concept / strategy / plan.  Implementing the above measures		
	Coordinating with institutional stakeholders, interest groups and social strata. Benefitting target groups.	→			
	Complying with ethical standards in local decisions. Representing norms and values in politics	→			

*Methodology of local development research.* The term “Comparative local development” denotes the study of local development by using the preferred method of comparison. This approach acknowledges the uniqueness of every country, region and settlement, nevertheless it accepts the tacit agreement that the challenges arising in different locations can be tackled within a common conceptual framework, and that the communalities and differences are best



explored by applying the comparative method of social science research. Most frequently, the aim of the comparative research effort is to reveal why in certain local settings certain development policies work, and why others fail.

Empirically supported comparative studies have certain advantages over descriptive case studies that are devoted to a single settlement, to a single policy or to a single project (“N=1 studies”). By extending the research to several comparable cases, the findings can be generalised, some hypotheses accepted or rejected and theoretical traditions can be supported or challenged. A long series of research projects, in particular of dissertations in local development has delivered proof that the comparative study of local economic systems and institutions may reveal the weak and strong points of resource allocation by markets or governments.

*Quantitative approach.* Besides the application of qualitative methods, if survey data or other micro-data are available, statistical instruments and models can be applied to reveal collective behavioural patterns of households, companies or settlements, moreover to assess the impacts of interventions.

*Methods of development consultancy.* Local development courses must also introduce the students into various methods and genres that are widely used by development practitioners. In particular, the planning and implementation of aid policy relies extensively on the knowledge of preparing feasibility studies, managing and evaluating development oriented projects, moreover on the ability of development consultants to assess the impacts of regulations and other policy interventions.

*Thus, local development as a field of study* is a branch of development studies, a particular conceptual framework which is structured along the lines and sectors of its constituent policy fields and disciplines. Its aim is to understand, interpret and improve the factors that shape collective well-being in human settlements. *Local development as a policy approach* aims at balancing global and local forces by harmonising top-down and bottom-up traditions of governance. Local development professionals must be able to co-operate with the representatives of a wide range of specific professions, and while relying on their expertise, to focus on the development perspective.

## NOTES

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*PAUL BLOKKER<sup>1</sup>*

## **THE CONSTITUTIONAL PREMISES OF SUBNATIONAL SELF-GOVERNMENT IN NEW DEMOCRACIES**

The paper discusses the significance and role of subnational democracy in the context of new European democracies in flux. In a context of fragile democratic traditions, the displacement of national sovereignty, and increasing civic adverseness to national politics, local forms of representative and direct democracy might – in advantageous circumstances – help to re-attach citizens to the democratic process. What is more, enhanced civic input into the local and regional policy-making may further local capacities and strengthen forms of local cooperation. Subnational democracy might therefore work as a partial antidote to efficiency (output legitimation) and legitimacy (input legitimation) problems of European democracies. In this, local forms of democratic interaction have particular significance in the new democracies in that legacies of paternalism, centralized politics, socialist legality, and a generalized distrust towards politics have tended to discourage the democratic participation. Democracy on the local and regional levels is of a particularly intricate nature in that it is dependent on the way it is institutionalized and constitutionalized, and thus on legal guarantees of autonomy as well as on distinct values of self-government as communicated by constitutions.

The paper starts with a discussion of the significance of decentralization, subnational self-government, as well as civic participation in the European context, and the argument will be made that firm constitutional foundations are one necessary condition for viable subnational self-government. In a second step, the constitutional orders of the Czech Republic, Hungary, and Poland will be briefly reviewed, focusing on their definitions of state and entrenchment of subnational forms of government and democracy. In the conclusion, it will be argued that significant forms of decentralized government and democracy have emerged in all three countries, but also that reforms have not been of an unambiguous nature and that important tensions and problems persist as a result.

## **THE SIGNIFICANCE OF SUBNATIONAL DEMOCRACY IN TIMES OF DEMOCRATIC CHANGE**

In the post-Second World War period, democracy in Europe referred predominantly to representative democracy, firmly situated and organized on the national level. Indeed, democratic theory was often explicitly against forms of decentralized, and in particular direct or participatory democracy. This is particularly evident in the widely influential statement on democracy as a competitive elite affair by Joseph Schumpeter (Loughlin, Hendriks, and Lindstrom 2010: 2).

With the crisis of Keynesianism and the advent of neo-liberal anti-statism and evermore influential globalization, however, the relationship between the national state and democracy has become a growing object for discussion. It is now increasingly argued that local or subnational democracy matters, and can in effect play an important role in revitalizing and reinvigorating democratic systems. However, while in the neo-liberal dictionary that became dominant in the 1980s, local democracy would mostly relate to diminishing the influence of the centralized state and enhancing the role of civil society, notably economic agents, from the 1990s onwards, it was now also increasingly realized ‘that political decentralization and local autonomy were important elements of democracy itself’ (Loughlin, Hendriks, and Lindstrom 2010: 5). Strengthening local government and local democracy could thus for a number of reasons be seen as potentially enhancing the quality of a democratic state, for instance, resulting from the proximity of local politics to the citizens, the higher accessibility of local politics to participation, in particular if in the form of direct and deliberative forms of democracy (Schiller 2011), and the shorter reaction time of local government to policy issues (Bailey and Elliott 2009: 436).

In political-theoretical terms, the local democratic narrative that emphasizes the democratic surplus value of local democracy can be understood as a kind of amalgam of republican political thought (emphasizing civic virtue, public autonomy, and civic engagement), communitarianism (politics close to the citizens), as well as ideas of deliberative democracy (politics as based on inclusion, deliberation, and consensus-building). It seems undeniable that at least in superficial terms this narrative has become increasingly important in addressing problems of policy-making in European democracies. One clear sign of this is the emphasis on regionalization in European integration and the adoption of the European Charter of Local Self-Government (1985).

The increased attention for forms of decentralization, public participation, and forms of participatory and direct democracy comes, however, exactly in

a period in which constitutional democracy is increasingly subject to great tensions and transformations. First, there is – in Europe - the evident shift in political and constitutional weight towards the European level. In other words, the overlap and concentration of a jurisdiction, a territory, and a people is increasingly less evident as important decisions and politics regarding a variety of political communities are taken outside of those communities. Second, in a related way, there is the increasing complexity and arcane streak that matters of governance and democratic politics display. Third, there is the increasing civic disattachment – in both East and West – vis-à-vis representative democratic politics. National political elites and institutions are profoundly lacking in civic trust and legitimacy.

### **SUBNATIONAL DEMOCRACY AS ANTIDOTE?**

In normative terms, it can be argued that local self-government can provide a partial anti-dote to democratic deficits and disengagement in a number of ways. First, the strengthening of local democracy will make constitutional democracies more pluralistic, in that political power becomes divided and diffused on the vertical level, which helps to avoid, on the one hand, the political hegemony of central governmental institutions (a salient objective in former totalitarian societies), and, on the other, might help recover some of the lost grasp of democratic sovereignty on politics. Second, local self-government makes it easier for citizens to participate in democratic politics and governance in a meaningful way than it would be when politics is completely centralized. Third, and as is probably most famously argued by J.S. Mill, local possibilities for democratic participation might help to foster sentiments of public autonomy among the citizenry:

It is necessary, then, that, in addition to the national representation, there should be municipal and provisional representations; and the two questions which remain to be resolved are, how the local representative bodies should be constituted, and what should be the extent of their functions. In considering these questions, two points require an equal degree of our attention: how the local business itself can be best done, and how its transaction can be made most instrumental to the nourishment of public spirit and the development of intelligence (Mill 2004: 512).

Fourth, local self-government might in some instances also be a more effective type of government, in that it is more likely to have a capacity of responsiveness, in terms of responding to local problems according to local views.

Local self-government is then seen by many as a kind of antidote to at least some of the problems of modern democratic regimes, not least that of civic engagement, but also regarding the increasing complexity of issues of governance.

It can, however, be argued that local government and local democracy are no obvious panacea to democratic and governance problems. Stephen Bailey and Mark Elliott have for instance recently argued that local government is only likely to deliver the goods when a ‘virtuous circle’ is created, that is, a situation in which ‘the obvious importance and responsiveness of local government incentivizes the participation of individuals in local politics and elections’ (Bailey and Elliott 2009: 436). In other words, ‘[a]ttempts to strengthen local *democracy* must, on this view, go hand-in-hand with attempts to strengthen local *government*’. In reality, however, many central governments have failed to induce such a virtuous circle ‘within which strong local democracy and powerful institutions of local government enjoy a symbiotic, mutually constructive relationship’. Rather, governments have tended to contribute to a ‘vicious circle’ in which ‘extensive central control, the consequent limitations to local power and autonomy and the disengagement of individuals and communities are factors that are mutually reinforcing’ (Bailey and Elliott 2009: 437).

## **SIGNIFICANCE OF SUBNATIONAL DEMOCRACY IN THE NEW DEMOCRACIES**

The importance of local government and democracy in the post-totalitarian context of Central and Eastern Europe is self-evident. The highly centralized systems of communism – indeed coined “democratic centralism” in Leninist systems – did not allow for any significant participation or voice by either stakeholders or the citizenry at large. What is more, the far-going centralization of communist political systems meant that no form of subnational autonomy or territorial self-government was allowed for. Not by coincidence the discourses of protest of many dissidents movements in the region contained a strong dimension of civic participation, decentralization, and local self-government (see Renwick 2006; Blokker 2011).

The past communist systems were detrimental to any idea of formal subnational self-government<sup>2</sup> in at least two ways. First, subnational forms of government were always strictly controlled by the central state, and therefore merely consisted in institutions for the execution of centrally imposed policies, lacking any kind of space for autonomous action in the interest of local populations. Second, not only did democratic centralism mean that no democratic channels were available for civic participation, but also any kind of political pluralism within the communist political institutions was reduced as far as possible, in that the state was subjected to the communist party with its homogenous programme and ideological

principles, while alternative voices were stifled under the banner of “enemies of the people”.

In addition, the “socialist legality” that underpinned the political structure of communist regimes was based upon “paper constitutions” that had very little to do with the rule-of-law and were rather a fiction or form of symbolism (in a pejorative sense) that displayed a huge discrepancy with the arbitrary nature of political-legal reality (cf. Skapska 2011). Rather than contributing to social integration and the constitution of political communities, the “paper” communist constitutions helped to enhance existing traditions of “us and them”, or, in other words, a deep distrust of society against the ruling elites.

The 1970s and 80s, as well as the early 1990s witnessed a fierce backlash against the centralism and political party-monism that had been imposed with communism. In particular in the early 1990s, radical steps were undertaken to undo the hypercentralization of the past. However, such reforms tended to run out of steam fairly quickly, not least due to increased disagreement about the exact nature of reforms, but the subnational reform process has continued in a more gradual manner in most societies in the post-communist region.

## THE CONSTITUTIONALIZATION OF SUBNATIONAL DEMOCRACY

This brings us to the process of decentralization, and of institutionalization and constitutionalization of subnational democracy in the two decades of post-communist transformation. An important question to ask is whether the transformation process has significantly contributed to the consolidation of vital constitutional democracies, which involve robust dimensions of pluralized and decentralized politics and promote active citizenship, or whether constitutional democracy has largely remained a fiction (cf. Skapska 2011: 9)? Any attempt at answering this question will need to take into account the foundations of these new democracies, and whether these are conducive or not to civic democracy. Indeed, with regard to subnational self-government, the assessment of a “virtuous circle” of local government and democracy as identified by Bailey and Elliott above needs a holistic view of the place of local government and democracy in the wider democratic-constitutional order. This means that the problems related to stimulating a virtuous form of local democracy ‘can be fully faced up to only if important questions about the legal and constitutional role of local government are squarely addressed’ (Bailey and Elliott 2009: 437). In other words, the foundations of decentralization and devolution are significant and need to be

explicit and clear-cut if a virtuous type of local government and democracy is to be expected to emerge.

The rest of the paper will then engage *in primis* with the constitutional premises of subnational-self government and in particular of local democracy, in terms of the constitutionalization of subnational government (municipal, county, regional) and of forms of representative and direct democracy. The constitutional dimension can itself be broken down into two meta-dimensions – an instrumental and a symbolic one. These meta-dimensions can themselves be differentiated into a range of functional dimensions of constitutions (see Blokker 2010). A primary functional dimension regarding the instrumental rationality of constitutions is that of an instrumental, power-ordering and limiting dimension. Here, the function of the constitution is to arrange for the mapping and division of political power, in terms of institutional prerogatives and competences, and forms of checks and balances. Regarding the local level, this largely negative function (in terms of the limitation of political power) includes the level of decentralization in terms of division of competences and oversight between central, regional, and local levels, as well as fiscal autonomy. A further dimension is the formal-participatory dimension which arranges for the possibilities of formal-procedural participation by citizens in terms of representative institutions on the local and regional levels.

With regard to the symbolic or sociological rationality of constitutions (cf. Skapska 2011), at least two further dimensions are relevant for local government and democracy. The first is the normative dimension, which relates to the axiological nature or constitutional morality that constitutions express. Of importance for local government and democracy are here the constitutional inclusion of notions such as subsidiarity, the right to local self-government and autonomy as foundational values, and the value of direct and indirect civic participation. The second is the substantive-participatory dimension, which relates to effective forms of civic participation in democratic politics in terms of direct and deliberative democracy.

### **CONSTITUTIONALIZATION OF SUBNATIONAL DEMOCRACY IN THE NEW DEMOCRACIES<sup>3</sup>**

Ideas of local self-government and local (representative and direct) democracy have had a visible impact on the post-1989 constitutional and legal orders of the Czech Republic, Hungary, and Poland, and while the initial radicality of changes of the early 1990s did not continue in later years of transformation, the three democracies analyzed here all display significant levels of decentralization.



At the same time, though, the constitutional and legal developments demonstrate a variegated impact of ideas of local democracy and direct forms of democracy. Below I will briefly trace the constitutional trajectories of the three new democracies with regard to the overall definition of the state, forms and definitions of decentralization, and forms and definitions of subnational democracy.

## THE CZECH REPUBLIC

The constitutional state in the Czech Republic can best be defined as a predominantly centralized, unitary state, based on a parliamentary-democratic system (cf. Illner 2010). This does, however, not mean that the local and regional levels of government are not important, nor that more direct forms of democracy or active citizenship are inexistent or not part of the constitutional order. This becomes, for instance, already clear from the symbolic-substantive reference to civil society in the preamble of the 1992 Constitution: “a free and democratic state based on the respect for human rights and the principles of civic society”. However, some have argued that while some forms of decentralization and self-government are part and parcel of the Czech system, its main logic is that of “state administration” (Bryson 2008).

Below, I will briefly trace the constitutional contours of both local self-government and local democracy as these have emerged in the 1990-2010 period. It will become clear that there is a tensional relation both between state-centralistic and decentralized views of the Czech polity as well as between representative and direct views of democracy.

## Constitutional Design of Local Government

The Czech state as it emerges from the 1992 Constitution is a sovereign, unitary and democratic state: “The Czech Republic is a sovereign, unitary and democratic, law-abiding State, based on respect for the rights and freedoms of man and citizen” (art. 1(1)). The constitutional state allows, however, also for decentralization at the local and regional levels. The 1992 Czech Constitution states in Chapter 1 on “Basic Provisions” that “[t]he autonomy of units of territorial self-administration shall be guaranteed” (art. 8), while Chapter 7 on “Territorial Self-Administration” stipulates the decentralized, “basic units of territorial self-administration” as municipalities, and higher units in the form of lands and regions (art. 99). Article 100 states that “communities of citizens, inhabiting a particular area ... have the right of self-government”, while article 101(3) underlines local autonomy in that

“[s]elf-governing territorial divisions are public-law corporations which may have their own property and which operate according to their own budget”.

While the value of subnational self-government and civil society, and related institutions, are entrenched in the constitution, significant (political as well as social) obstacles to the realization of principles of local self-government seem not have been overcome in two decades of transformation, and the centralistic nature of the Czech state can only partially be said to be ‘corrected’ by local and regional autonomy. However, at the same time, it would be hard to deny the continuing importance of decentralization and ideas of self-governance for democratization in the Czech Republic.

Throughout the 1990s, the latter was particularly visible in the form of a conflictive debate between Václav Havel (and the Czech left) and Václav Klaus (and the Civic Democratic Party or *Občanská demokratická strana* (ODS)) on the role and form of in particular regional government. Klaus opposed issues of reform and decentralization on grounds of neo-liberal scepticism towards bureaucracy and intermediary institutions, and held off the implementation of article 99 of the Constitution. Eventually, though, at the end of the 1990s, significant decentralizing steps and the creation of a regional layer were effected, not least due to EU pressure (cf. Calda 1999). The constitutional act of 3 December 1997 on the “Creation of Higher Territorial Self-Governing Units” changed article 99 into “[t]he Czech Republic is subdivided into municipalities, which are the basic territorial self-governing units, and into regions, which are the higher territorial self-governing units”. And indeed, there are indications that the regional level has grown in importance since its establishment. Recently, Baun and Marek have argued that the “new regions have begun establishing themselves as legitimate and important political actors” (425).

The constitutional status of subnational self-government was further entrenched by a number of rulings by the Czech Constitutional Court. For instance, in 2003 the Constitutional Court ruled that

The guarantee of territorial self-government in the Constitution is laconic. Alongside the differentiation of the local and regional levels of self-government (Art. 99) territorial self-government is conceived as the *right* of a territorial association of citizens, arising from its characteristics and abilities, as the Constitutional Court stated in its finding of 19 November 1996, file no. Pl. ÚS 1/96 (Collection of Decisions of the Constitutional Court, volume 6, p. 375).

The Constitutional Court considers local self-government to be an *irreplaceable component* in the development of democracy. Local self-government is an expression of the capability of local bodies, within the bounds provided by

law, to regulate and govern part of public affairs on their own responsibility and in the interest of the local population. (CC 2003/02/05 - Pl. ÚS 34/02: Territorial Self-Government; emphasis added)

Later in 2003, the constitutional court further underlined the importance of fiscal autonomy of regions and municipalities:

According to the starting thesis, on which the concept of self-government is built, the foundation of a free state is a free municipality, then, in terms of regional significance, at a higher level of the territorial hierarchy a self-governing society of citizens, which, under the Constitution, is a region. With this concept of public administration built from the ground up, the following postulate must be immanent to self-government, as an important element of a democratic state governed on the rule of law: that a TSU must have a realistic possibility to handle matters and issues of local significance, including those which by their nature exceed the regional framework and which it handles in its independent jurisdiction, on the basis of free discretion, where the will of the people is exercised at the local and regional level in the form of representative democracy and only limited in its specific expression by answerability to the voter and on the basis of a statutory and constitutional framework (Art. 101 par. 4 of the Constitution). Thus, territorial self-governing units representing the territorial society of citizens must have – through autonomous decision-making by their representative bodies – the ability to freely choose how they will manage the financial resources available to them for performing the work of self-government. It is this management of one's own property independently, on one's own account and own responsibility *which is the attribute of self-government*. Thus, a necessary prerequisite for effective performance of the functions of territorial self-government is the existence of its own, and adequate, financial or property resources. (2003/07/09 - Pl. ÚSD 5/03: Territorial Self-Government Unit; emphasis added)

## Constitutional Design of Local Democracy

As mentioned earlier, the Czech constitution defines Czech democracy in a predominantly representative, parliamentary manner. This is, however, paralleled by constitutional foundations of subnational representative democracy as well as more direct forms of civic participation.

It should be noted that the 1992 Constitution was predominantly designed by a government commission dominated by the ODS, which squarely favoured a centralistic state without intermediary levels. The articles on local self-government that were ultimately included in the 1992 document were the result of

a compromise between the ODS, its coalition members (more favourable to local government), and the opposition. The compromise led to a fairly vague and open-ended formulation, and, as noted above, the regional level was not implemented before 1999, but the Czech Constitution does go some way in qualifying a fully centralistic as well as liberal-representative view of the Czech state.

The Constitution arranges for representative democracy on the subnational level in article 101, which states that both municipalities and regions are administered by councils, which are “elected by secret ballot on the basis of universal, equal, and direct suffrage” (art. 102). The political status of subnational democracy is enhanced by the fact that, even if the turn-out rates for both the elections of regional and municipal councils are generally not very high, in particular the municipal institutions enjoy a very high level of political trust among the Czech citizens, much more so than those on the national level (Illner 2010: 519).

Symbolic-substantive references to subnational democracy can be further found in the Czech Bill of Rights, – the “Charter of Fundamental Rights and Basic Freedoms” – which can be considered part of the constitutional constellation. The Charter invokes the Czech “nations’ traditions of democracy and self-government”, and also refers to the fact that “[c]itizens have the right to participate in the administration of public affairs either *directly* or through the free election of their representatives” (art. 21(1)) (emphasis added).

Turning to forms of direct democracy, the institutionalization of civic participation is rather weak in the Czech Republic. Thus, in a fairly stark contrast to the intensity of republican ideas of Charter 77 of the 1980s (see Renwick 2006; Blokker 2011), post-1989 Czech democracy appears to display the least extensive form of constitutional and legal institutionalization of forms of direct democracy - at least regarding the instrument of civic consultation through referenda - in the region. To be sure, elements of direct democracy are not prominent in the Czech Constitution. And while, as a result of a compromise, the 1992 constitution does entail the formulation that “[a] constitutional law *may* stipulate the cases when the people exercise state power directly” (art. 2(2); emphasis added), to date no such law has been adopted, despite repeated attempts by pro-referendum groups (see for an extensive overview of such attempts, Adamova 2010).

But on a closer look, while it is clear that political forces sceptical of referenda and direct democracy have so far prevailed, the issue is clearly not settled yet and continues to re-emerge in Czech political debate. For instance, in 2002, in the context of debates over the referendum on EU accession, a constitutional act for a general, national right to referenda was proposed, but was (once again) rejected

by right-wing parties. Ultimately, an act on referendum was adopted that related only to EU membership.

But while a constitutionally guaranteed right to the holding of national referenda is still absent, referenda on the *local* level have become much more consequential (on the regional level, referenda are not permitted). Admittedly, during the 1990s referenda were only used for questions of secession from existing municipal arrangements. And while the original legislation regarding local government – the 1992 Law on Local Elections and Referendums – notably stems from the Civic Forum period, no referendum of general import took place on its basis in the first decade of democratization. However, following the amendments of the law in 2004 and 2008, clearing a number of ambiguities and strengthening the position of referenda proposers, local referenda have become a much more significant – and binding – civic instrument in Czech democracy, and are used for much wider purposes than before (see Smith 2011; Adamova 2010: 53-4).

## HUNGARY

The Hungarian democratic state can be defined as a “decentralized unitary” one – “[t]he Republic of Hungary is an independent, democratic constitutional state” (art. 2(1)) – with a “strong and decentralized system of county governments” (Soos and Kakai 2010: 530). Local government is strongly entrenched in the Hungarian case, and enjoys a high level of autonomy in decision-making. Local democracy is mostly focused on representative, party-based democracy, while civic input and NGO participation are so far limited.

Below, I will describe the constitutional contours of both local self-government and local democracy as it has emerged in Hungary between 1990 and 2010. It will become clear that Hungary arguably has one of the strongest local government systems in the region, but equally that the democratic potential of such a system is not used to the full. What is more, current constitutional turmoil might seriously undermine past achievements.

## Constitutional Design of Local Government

In the constitutional changes of the early 1990s, local self-government enjoyed a high priority in that it was seen as an indispensable way of undermining the centralist institutions of “democratic centralism”. Thus, “the replacement of the council-based public administrative system with a sphere of independent local self-government was a key concern in administrative reform” (Balazs 1993: 76).

The amended Constitution of 1949 dedicates chapter IX to Local Governments, in which article 42 on the “Right to local government” now states: “Eligible voters of the communities, cities, the capital and its districts, and the counties have the right to local government. Local government refers to independent, democratic management of local affairs and the exercise of local public authority in the interests of the local population”. The main sub-national distinction is between the local level (villages, cities, capital districts, capital) and the county level. A regional level was added in 2000 to be able to attract EU Structural Funds, but its status so far is weak (Soos 2010: 113-14). In contrast, local governments of the municipal type, and to a lesser extent counties, are the entities with most political significance on the subnational level.

Democratic reforms towards decentralization involved mainly two stages. In 1990, the parliamentary Act No. LXV on Local Governments was adopted, which “established the legal foundation for the process of democratization and reform of the political system”. The Act LXV is introduced as follows:

Following the progressive local government traditions of our country, as well as the basic requirements of the European Charter on local governments, Parliament recognizes and protects the rights of the local communities to self-government. Local self-government makes it possible, that the local community of electors – directly, and/or through its selected local government – manage the public affairs of local interest independently and democratically. Supporting the self-organizing independence of local communities, Parliament assists the creation of the conditions necessary to self-government, it promotes the democratic decentralization of public authority (Act No. LXV).

Moreover, the Act No. LXIV on Local Elections was adopted, arranging for local democracy to start functioning. In a second stage, in 1994, the existing local system was reformed by means of the Act on Local Governments (No. LXIII). These reforms included a call for broader constitutional guarantees of local government, steps towards more direct participation (the direct election of mayors), and the regulation of civic participation and publicity.

These reforms have led some observers into saying that “[w]ithout doubt, the 1990 local government reform established one of the most liberal systems of local government in Europe” (Balazs 1993: 85). Also others have argued that in 1990 legislation was adopted that established a “very high degree of autonomy for the lowest, local level of government”, while the constitution enshrined the right to self-government at local and county levels as a constitutional principle (Fowler 2001: 8).

But while it has been acknowledged that this “rapid institutional reform was unique” (Fowler 2001), it needs at the same time to be recognized that the extensive nature of the reforms have led to a relatively high level of fragmentation and dysfunctionality of local democracy and government. In this, the counterreaction to the hypercentralization of the communist regime has not necessarily led to adequate decentralized structures. That said, the significance of an institutional dimension of local government in Hungary – even if in need of amelioration – seems evident enough.

## **Constitutional Design of Local Democracy**

Local democracy as a citizens’ right – in both indirect and direct ways – is entrenched in the Hungarian constitutional order, in that article 44(1) stipulates that “[e]ligible voters exercise the right to local government through the representative body that they elect and by way of local referendum”.<sup>4</sup> In Act no. LXV, a similar idea is expressed in art. 1(4) as “[t]he local government may – through the elected local body of representatives, or with the decision of local plebiscite – undertake independently and voluntarily the solution of any local public affair, which is not referred by a legal rule to the jurisdiction of another organ”. And also in the Hungarian case, it can be argued that local democracy enjoys a relatively high standing in terms of civic political trust. Local governments (with the institutions of the president and the constitutional court) tend to score significantly higher than both the parliament and the government (Soos and Kakai 2010: 541).

Institutions of direct democracy on the local level are fairly well-entrenched in the Hungarian case. In general, “demands for referendums were part of the movement for democracy” and since the transition, “no political party has denied that at least certain forms of direct democracy should be part of the Hungarian constitutional and political order”, Dezső and Bragyova 2001: 63). In the late 1980s, the reaction of the Communist party to the opposition’s demand for referenda resulted in Act XVII, adopted unilaterally in June 1989. This legal act was the basis for referenda and popular initiatives until 1997, when it was renewed and partially replaced by constitutional articles. The earlier act – according to András Sajó a “very poorly drafted document” (2006) – was widely contested because of various lacuna, not least in procedural terms. What is more, there was a strong suspicion of its unconstitutionality.

In 1997, a new set of rules was constitutionalised through a constitutional amendment (Act C of 1997 on Electoral Procedure), and can be regarded as at least partially the outcome of initiatives related to the democratization movement

of the 1980s. Even if the “scope and conditions of referenda were gradually restricted since 1989”, the amendment of the constitution enhanced the status of direct democracy considerably (i.e. Chapter XV on local referendums and Chapter XVI on local initiative). The constitutional status of referenda was reiterated by a ruling of the Constitutional Court in which it argued that the “institution of referendum is closely related to the provisions of the Constitution. A referendum, as a typical form of direct democracy, is related to the sovereignty of the people, and, the practice of the Court interprets *the right to referendum as a political fundamental right*” (website Hungarian Constitutional Court; decision 52/1997; emphasis added).

While in general the Hungarian democratic system is a representative one, the constitutionalization of instruments of direct democracy has created a tension between direct democracy and the predominantly liberal, representative idea as constitutional principles. To some extent, “direct democratic institutions already have a foothold in Hungarian constitutional thought” (Dezső and Bragyova 2007: 82, even if the institutions are still not sufficiently well-defined.<sup>5</sup>

## POLAND

Also the Polish constitutional state is defined as a unitary and centralized state, even if allowing for subnational government on the regional and local levels. In other words, while, as expressed in article 3 of the 1997 Constitution, Poland has without a doubt a unitary system, its constitutional order allows for “relatively strong local autonomy” and tendencies towards strengthening regionalization are visible (Swianiewicz 2010: 482). The latter becomes already clear from the preamble – “... [h]ereby establish this Constitution of the Republic of Poland as the basic law for the State, based on respect for freedom and justice, cooperation between the public powers, social dialogue as well as *on the principle of aiding in the strengthening the powers of citizens and their communities*” (emphasis added).

Below, I will briefly describe the constitutional contours of both local self-government and local democracy as it has emerged in particular in the Polish Constitution of 1997, as well as in the process of regionalization of the last few years of the 1990s.



## Constitutional Design of Local Government

In the Polish case, local self-government was a prominent focus in the constitution-making process, and has been amply arranged for in the 1997 Constitution. The process of decentralization already started in the early 1990s, and had in many ways been prepared by the political struggle of the *Solidarność* trade union for decentralized government (cf. Benzler 1994; also Blokker 2011). The Local Government Act of 1990 provided the fundamental legal underpinnings of the right to self-governance of local authorities. In addition, almost all of *Solidarność*'s demands for territorial self-government were enshrined in the articles 43-47 of the amended 1952 constitution, while these were later re-confirmed in the so-called Small Constitution of 1992.

The 1997 constitution has often been criticized for being rather unspecific with regard to notions of local self-government and decentralization, but it can at the same time be argued that the dimension of local self-government is strongly anchored in the text. As noted above, the symbolic-substantive dimension of self-government and subsidiarity is reflected in the preamble, indicating their status as foundational-constitutional values. The constitutional text itself introduces local self-government as early as article 15 – “[t]he territorial system of the Republic of Poland shall ensure the decentralization of public power” (1) – and 16 – “[t]he inhabitants of the units of basic territorial division shall form a self-governing community in accordance with law”(1) – and “[l]ocal self-government shall participate in the exercise of public power. The substantial part of public duties which local self-government is empowered to discharge by statute shall be done in its own name and under its own responsibility” (2). The constitution arranges for local self-government in a detailed way in chapter VII. It should be noted (cf. Swanieqicz 2010: 484), however, that only the local, municipal level (*gmina*) is arranged for in the constitution (art. 164(1)), while the other, regional and county, levels are to be arranged for by statute (164(2)). In substantive-symbolic terms therefore, local self-governance at the municipal level is prioritized.

The process of decentralization and the creation of local self-government has arguably been a success in Poland, and is one of the most effective – even if continuously contested – reforms in the region (contestations regards in particular to the status of the subnational levels other than that of municipalities). The attention for local self-government and civic participation can be clearly related to the dissident legacy of *Solidarność*, even if the latter's original idea of a “self-governing republic” has never been realized in any extensive way. On the one hand, it can then be argued that “local self-government in Poland found a permanent

place within the post-transformation political landscape”, not least through its constitutionalization, but at the same time, it can be said that there are clear tendencies at recentralization and state disregard for local autonomy (Regulska 2009). What is significant, though, is that tensions and contestations over the desirable form of local self-government, and appropriate relations between the centre and periphery continue to exist, indicating the unsettled nature of local democracy and the continuous relevance and discursive force of the notion of self-government.

## **Constitutional Design of Local Democracy**

Local government is underpinned by both representative and direct forms of democracy in Poland: “[e]lections to constitutive organs shall be universal, direct, equal and shall be conducted by secret ballot. The principles and procedures for submitting candidates and for the conduct of elections, as well as the requirements for the validity of elections, shall be specified by statute “(169(2)), and “[m]embers of a self-governing community may decide, by means of a referendum, matters concerning their community, including the dismissal of an organ of local government established by direct election. The principles of and procedures for conducting a local referendum shall be specified by statute” (170). Local elections are arranged for by the 1998 Local Election Law. Also in the Polish case, turnout for local elections tends to be relatively low (it has never been higher than 50 percent since 1990, see Swianiewicz 2010: 497), but public opinion polls show consistently higher civic trust towards local institutions than towards central political institutions.

In terms of direct democracy as a dimension of post-1989 Polish local democracy, it is clear that it has become a “common element of democratic decision-making” (Přibáň & Sadurski 2006: 218; cf. Piasecki 2011: 136). Dimensions of participatory democracy – in particular through the form of referenda – have taken on a certain significance in the Polish democratic architecture in their own right, and already from the late 1980s onwards (see Piasecki 2011).

The institutionalization of instruments of direct democracy started early on in the Polish transformation. Two constitutional amendments in late 1989 and early 1990 introduced a change of the 1952 constitution so that sovereignty was now vested in the nation, and could be exercised in a representative as well as a direct way. The Local Government Act of 1990 included the option of popular vote, next to that of regular elections, and identified three types of referenda: mandatory (recall), mandatory (self-taxation), and facultative (matters of importance to the

commune (Piasecki 2011: 126-7). The Local Referendum Act of 1991 further stipulated the implementation of referenda.

Instruments of direct democracy were also articulated forcefully in most constitutional drafts proposed throughout the early 1990s, and in the newly adopted Constitution in 1997 even gained somewhat in importance. The Polish constitution invokes a notion of direct civic participation as early as in article 4(2), and the strengthening of citizens power is alluded to in the preamble. The 1997 constitution codifies the citizens' right to direct participation through referenda in constitutional matters, national referenda regarding ordinary legislation, and referenda on the local level. Article 170 stipulates that "[m]embers of a self-governing community may decide, by means of a referendum, matters concerning their community, including the dismissal of an organ of local self-government established by direct election. The principles of and procedures for conducting a local referendum shall be specified by statute".

It seems fair to argue that the 1997 Constitution, "unlike all its predecessors, contains a relatively wide range of provisions concerning direct democracy", which is a "fact worth stressing, especially as such solutions are rare in Polish history" (Szmyt 1999: 128-129). This interpretation is confirmed by the legal scholar Ewa Popławska, who has argued that the "increasing value of direct democracy is reflected in its extended forms, in particular in the extension of the scope of facultative application of a referendum to include matters of fundamental importance to the state" (Popławska 1999: 189). As for instance argued by a current judge of the Constitutional Court, Stanisław Biernat, the referendum instrument does have particular significance on the local level (Biernat 2005). This observation is corroborated by the sociologist Paweł Swianiewicz, who in the early 2000s observed some positive trends in terms of more frequent and widespread use of local referenda, and a higher success rate (Swianiewicz 2001).

## CONCLUSIONS

Following, among others, Bailey and Elliott, I have argued that a "virtuous circle" of subnational government and democracy mutually enforcing each other is only likely to come about in a constitutional context of sufficiently decentralized and autonomized local self-government with a variety of democratic channels, and the unambiguous endorsement of constitutionalized subnational self-government by relevant political and legal actors. The concise review of the relevant foundational legal structures as have been adopted in the cases of the Czech Republic, Hungary, and Poland since 1989 shows that, on the one hand, significant steps towards

subnational self-government have clearly been made, but also that, on the other, subnational equilibria and state-local relations are in some instances fragile, and do not always enjoy sufficient legal guarantees or the protection of clear-cut constitutional principles. Furthermore, distinct problems with decentralization<sup>6</sup> await further steps of reform.

In the Czech Republic, both the local and the regional level are part of the constitutional make-up. The 1992 Constitution indicates both levels as basic and higher units of territorial government respectively. The regional level was, however, only implemented in the later 1990s, after protracted political conflict over its necessity, and following sharp critique by the EU on the lack of an adequate regional administrative structure. The belated implementation of the regional level has, according to some observers, resulted in a lower level of civic trust in regional institutions and less political prominence. This is exacerbated by a limited autonomy in financial matters as well as the continued existence of regional structures directly administered by the state (Illner 2010: 522-3). Regarding local and regional democracy, democratic institutions and mechanisms are clearly available on the subnational level. The local level is, however, the only level on which direct democracy is provided for in terms of referenda, an instrument that is increasingly put to use (Smith 2011).

In Hungary<sup>7</sup>, the constitution identifies various levels of subnational self-government, but the local, municipal (and county) levels are clearly the ones that are more significant, not least because of the stipulation of a relatively wide set of responsibilities and a relatively high level in the independence of finance (Soos & Kaki 2010: 532). Also in Hungary, local, municipal-level self-government has enjoyed priority throughout the transformation period. As Soos has argued, '[I] egally speaking, the rights of local governments are well protected' (2010: 125). The middle-tier (including that of counties) has, in this, become somewhat more important only later on. In terms of local democracy, representative mechanisms are well-established while direct forms (referenda as well as a citizens' initiative) have only been constitutionally enshrined in 1997, while referenda have been endorsed by the Constitutional Court as a "fundamental political right". Despite such legal safeguards, however, local democratic politics is – according to some observers – not of high quality, even if participation through elections is increasing (Soos & Kaki 2011: 549).

In Poland, the constitution prioritizes both subnational government and democracy on the local, municipal level. Only the latter has constitutional status (as the "basic unit of local government"), although its status is subject to political conflict and attempts at recentralization by the central state (Regulska

2009). Since 1998, county and regional levels have been added to the subnational picture, but regional self-government is paralleled by regional decentralized state institutions. Despite their limited functions and financial autonomy, regions do seem to have created a “new political dynamism” and are slowly becoming more robust, according to some observers (Swianiewicz 2010: 501).

Aforementioned political conflict over decentralization tends to undermine subnational forms of democracy in Poland (cf. Regulaska 2009). Such conflict negatively influences the potential of local self-government, but also that of local democracy and civic participation. While local democracy is well-entrenched in both its representative and direct (local referenda) forms, the parameters for local autonomy seem not always unambiguously respected by the central state institutions, political parties, as well as local elites, and a functional, rather than a democratic-participatory interpretation of local self-government seems to prevail so far (Swianiewicz 2010: 484). At the same time, civil society institutions are mostly not strong enough to provide sufficient counterthrust.

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## NOTES

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- 2 In the informal reality of "socialist realism", there were different ways of circumventing central control.
- 3 This part is partially based on Blokker 2011.
- 4 In the new constitution, unilaterally adopted by Fidesz in April 2011, the representative dimension of local democracy is clearly articulated: "[t]he members of the local representative body and the mayors are elected by the citizens on the basis of universal and equal suffrage, with direct and secret ballots, at elections articulating the free will of the people in a manner defined by super majority law" (art. 35(1)). The instrument of local referendum is mentioned once in the draft text, but not in the section on local government, and without further stipulation.
- 5 Schiller classifies Hungary's procedures of local direct democracy as of 'medium' quality, together with the Czech Republic and a majority of the



German states (Schiller 2011: 19). Schiller further argues that in a comparative context, Hungary, at least in contrast to Belgium, Luxemburg, and Spain, displays “substantial rates of activity” of local direct democracy (2011: 22).

- 6 These include far-going municipal fragmentation in the Czech Republic and Hungary; the clarification of relations between the various subnational levels and the centre, as well as organizational clarity regarding prerogatives and duties; the predominance of national political parties on the local level; and limited civic participation.
- 7 The full impact of current constitutional turmoil on subnational self-government will unfortunately have to await the evolvement of events.



## **TEMPORARY AND LASTING EFFECTS OF A DELIBERATIVE EVENT: THE KAPOSVÁR EXPERIENCE<sup>4</sup>**

### **INTRODUCTION**

In June 2008 a deliberative event<sup>5</sup> was organized in the South-West Hungarian Kaposvár district with the participation of the residents of Kaposvár and the surrounding 53 villages. The deliberative research was part of a broader comparative FP6 project called IntUne (Integrated and United? A Quest for Citizenship in an Ever Closer Europe), based on elite and public opinion surveys, interviews and media analysis. The core issues of the research were different aspects of the perception of integration: identity formation, scope of governance and representation. On the other hand the greatest immediate problems for the local society in the Kaposvár region were unemployment and related issues of the local economy, that is why these two topics – economy and European integration - were discussed during the deliberation.

Deliberative Polling (DP) is a technique which combines traditional random sampling public opinion polls with deliberation in group discussions. It turned out that participants changed their mind significantly on several questions. They proved to be better informed on average after the event and their opinion became more balanced in the evaluation of unemployment. Attitudes concerning economic competitiveness became more open while solidarity and tolerance towards the unemployed also increased. We detected some paradoxical effects as well: support for the EU increased after the event despite the fact that a decreasing proportion of participants felt that the EU integration has had an impact on their life. As for the evaluation, the majority was enthusiast after the event and declared future interest in the discussed topics and in participation in public debates<sup>6</sup>.

One year later, as part of a follow-up survey we visited the participants again (as well as a control sample of non-participants) and measured the stability and change of their knowledge, opinions and evaluation of the event. This paper sums up some results of the follow-up survey. It argues that the majority of the

opinion changes proved to be temporary after the event, but some of them were lasting. It investigates the social characteristics of those who changed their mind temporarily and more permanently.

Below we first provide an overview of the theoretical issues that deliberative models and methods address and the problematic areas of the subject followed by the presentation of the methodology and design of our project. We then show a summary of the opinion, attitude and knowledge changes that occurred after the deliberation and whether this was a lasting change one year later. At the end, we try to describe the socio-demographic characteristics of the short and long term changes with regression models.

## MODELS AND METHODS OF DELIBERATION

Deliberation is discussed in two ways in the literature: in one as a social *model* of collective decision making, and in the other as a *method* based on organized discussions of smaller or larger groups. While there is a common core of them - discussion of relevant public issues in order to reach the ideal type of properly informed and involved citizens – it seems to be reasonable to distinguish between models and methods for the sake of highlighting the proper place of this paper.

The deliberative social model belongs to the family of normative thinking that conceives *participative forms* of collective decision making as being able to substitute for (or correct) the model of *representative democracy*. While *representative* democracy refers to a form of government in which citizens vote to elect the leaders, in the *participative* models citizens have an active role in governance, although the border between the two types is somewhat vague: deliberation as a method of communication is present in both forms. The difference lies in the fact that in the representative form deliberation is mostly a privilege of the selected elites, while in the participative model in principle it directly reaches all participants.

Cohen and Sabel (1997) suggest that the model of *directly-deliberative polyarchy* is “an attractive kind of radical, participatory democracy with problem-solving capacities useful under current conditions and unavailable to representative systems. In *directly-deliberative polyarchy*, collective decisions are made through public deliberation in arenas open to citizens who use public services, or who are otherwise regulated by public decisions.” In addition, ideally “*directly-deliberative polyarchy* combines the advantages of local learning and self-government with the advantages (and discipline) of wider social learning and heightened political accountability”. They argue that the above mentioned aspects

of polyarchy strengthen participatory forms and explain advantages of *directly-deliberative* decision-making as against *representative-aggregative one* (Cohen & Sabel 1997: pp 313-317).

Forms of *participative* democracy – such as *deliberative* or *associative* – overlap in many respects. *Associationalism*, emphasizing the values of voluntarism, self government and cooperation, as Piotr Perczynski put it, “could provide concrete arenas of deliberation, and, in fact, the overall associative system could also be seen as an arena of negotiating, competing and co-operating associations” (Perczynski, 1999:13).

The common characteristics of *deliberative* and *associative* models are that they put emphasis on direct deliberation among citizens in collective decision making. In the *representative* model of democracy the emphasis is on the sequence of *selection*, *deliberation* among the selected few and *voting*. It is normally accompanied with asymmetric communication within the media and *ex post* deliberation among the cognitively mobilized groups of the society. This model is criticized mostly on the ground of failures of the sequence’s steps. That leads to a situation in which people are under-informed about and not interested in public affairs. They become alienated from the selected elites, care less about the public good and the very selection may lead to suboptimal results. Selection of representative elites happens in circumstances where people know little about the programme of the selected and about the major social problems these programmes are supposed to deal with. Public opinion formation relies upon similar conditions.

Deliberative *methods* lie on a scale of different solutions of civic discussions aiming at involving citizens into public discourse. At one pole there is the Deliberative Poll where the aim is deliberation itself (information for and involvement of stakeholders). On the other pole there is the citizens’ jury where the emphasis is on aiming at consent seeking and forming suggestions. Another important distinction within deliberative methods concerns the very aim of the action: on one end of the scale the aim is pure research on the other the aim is triggering social action. Most frequently deliberations lie between the two: these are researches which combine the aims of triggering and studying social action. The participants of *deliberative* events, in a quest for the public good, argue and debate freely. The arguments may change individual preferences, and raise the level of knowledge of the participants. While public debates have *educational* effects and make the citizens better, they also create a communication and public policy forum dominated by mutual respect of the participants. Deliberation is a certain *learning process*, during which deliberating citizens gather relevant information, reflect on arguments, and exchange opinions (Fishkin 2005).

The participants take into consideration balanced, appropriate information and articulate arguments pro and contra. The very essence of deliberation is consideration and the competition of arguments. The Deliberative Poll as Fishkin put it “attempts to model what the public would think, had it a better opportunity to consider the questions at issue” (1997 p. 162). It seeks to promote awareness, consideration and responsibility during election, to build *better citizens*, to increase the decision making competence of citizens, to create a more transparent public life, to increase the participation of the people in public matters, and to support well grounded public opinion forming through information and discourse (Luskin and Fishkin 2002).

The method of Deliberative Polls amongst others tries to provide answers for *problems related to the public opinion* and its measurement as well (Ackerman & Fishkin 2003). The main problem addressed by Deliberative Polling relates to the problem of *rational ignorance* (Downs 1956) which applies to the social phenomenon when it is not felt to be worthwhile or of importance for people to devote time and effort to gather the necessary information in order to elaborate a well-grounded opinion. However, the lack of information or elaborated opinion does not prevent the interviewee to formulate an opinion when asked, during a public opinion research. One may argue that citizens are rarely well-informed enough on public issues, therefore public opinion polls represent a superficial reality. Another problem of public opinion is that as information and cognitive skills are not equally distributed, not everyone has an elaborated opinion on every public issue (Zaller 1993) and this problem raises the question of the equivalency of opinions (Bourdieu 1997). The less elaborated opinions or attitudes may also be less stable over time, can easily be changed, furthermore, less consistent, even contradictory opinions can also coexist in one person’s mind (Zaller-Feldman 1992).

Beside the problem with public opinion itself, there are several other technical problems related to its measurement. Some have reproached it as not only does it seek to measure public opinion but it generates it through the way and time issues are presented and the way questions are formulated, phrased and in which order (Zaller-Feldman, 1992). Beside the inconsistency of opinions present at the individual level, another problem of public opinion polls is whether a collective decision can be reached by a simple aggregation of individual opinions (Hardin 2003). Opinions that are still consistent at the individual level do not necessarily lead to a consistent opinion at the collective level (Pettit 2003). Those who deal with collective rationality enhance that collective decisions where deliberation of the issue is allowed are often more rational from the point of view of the group

than those decisions obtained by simple aggregation of individual opinions – this would correspond to a deliberative model of democracy.

As the main aim of a deliberative poll is to produce an informed public opinion it is interesting to analyse the changes that occur in the level of knowledge, and in the attitudes of the participants of the deliberative event. In order to achieve this, survey data before and after deliberation are to be analysed. To see whether these changes are a product of a cognitive process of elaboration of opinions it is very useful to measure the long term effect of a Deliberative Poll, however, this kind of follow-up research is conducted in relatively few cases (Luskin-Fishkin 1998, Attitudes to Crime 2002, Hansen-Andersen 2004). Furthermore, opinions and attitudes can change due to impacts other than the deliberative event itself – in order to control for the effect of other factors with simultaneous influence the usage of control groups is needed.

## RESEARCH DESIGN AND SAMPLES

As was mentioned above in May 2008 a representative sample of the inhabitants of the Kaposvár Small Area has been polled (n=1514) on the themes of unemployment, economy and the European Union (T1). The respondents of the survey were invited to participate in the deliberative weekend. As a briefing material, a booklet containing information and facts about employment, economy and the EU, pros and cons about the possible measures and policies that could facilitate the discussion, was sent out for all of those 435 persons who were willing to come. At the end *108 persons participated* to the event held at the Kaposvár University on the 21-22 of June 2008. During this weekend the participants discussed the themes with each other in small groups of 5-10 and with invited experts during plenary sessions and were asked to complete a questionnaire, similar to the first one at the end (T3). A year later, in August 2009 we went back to the field (T4)<sup>7</sup> and interviewed both the participants and a control group who have not participated to the event but had initially answered the survey. This way we ended up with a sample of 90 persons who have participated to the deliberative event and have taken part in all survey measuring both short and long term effects of the deliberation, and a control group of 96 persons. People of the control group were selected from the participants of the initial representative survey (T1), this way these people have completed the initial survey (T1) and the one conducted a year later (T4) but have not participated in the event. The current paper deals with these two groups (see Table 1).

*Table 1: Socio-demographic characteristics of the sample (%)*

		Representative sample	Participants	Control group
N		<b>1514</b>	<b>90</b>	<b>96</b>
		100.0	100.0	100.0
<b>Gender</b>	Male	43.2	46.7	43.8
	Female	56.8	53.3	56.3
<b>Education</b>	primary or less	27.1	23.3	19.8
	Vocational	28.5	31.1	26.0
	high school	32.0	33.3	38.5
	college/university	12.5	12.2	15.6
<b>Age</b>	-44	37.0	25.6	29.2
	45-	63.0	74.4	70.8
<b>Settlement</b>	Kaposvár	66.9	77.8	70.8
	Other	33.1	22.2	29.2
<b>Present occupation</b>	Employee	34.0	24.4	37.5
	entrepreneur, own business	4.8	2.2	5.2
	doing casual work	.8	1.1	2.1
	Unemployed	9.8	17.8	8.3
	pensioner	40.1	47.8	37.5
	on maternity leave	5.3	4.4	3.1
	Student	3.8	2.2	5.2
	Other	1.4	.0	1.0

*Cramer's V measures: Gender: n.s., Education: n.s., Age: 0.07\*\*\*, Settlement: 0.06\*\*, Occupation: n.s. Statistical significance: \*\*\* < 0.01, \*\* < 0.05, \* < 0.1*

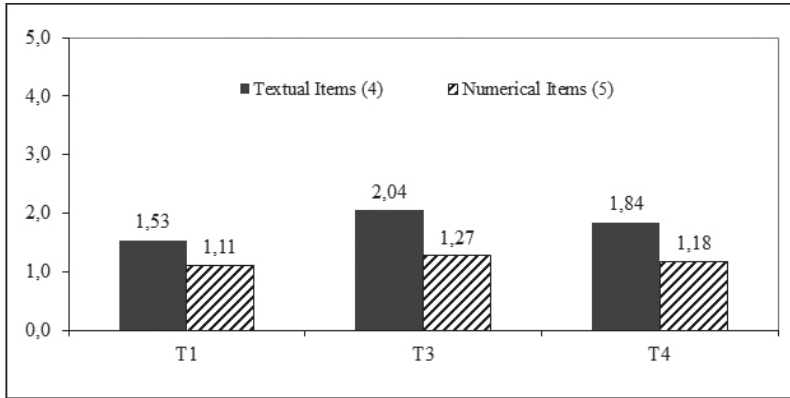
## SUMMARY OF TEMPORARY AND LASTING CHANGES

In this part of the paper we present the changes in opinion, attitudes and the level of knowledge that occurred right after the deliberative event and whether it lasted a year later. One of the main aims of a Deliberative Poll is to produce an informed public opinion, therefore, one possible measure of its success is the gain in terms of participants' knowledge. Before the event the participants are sent an information booklet where they are provided with information regarding the theme, but they can gain further knowledge during the small group discussions from each other and from the experts at the plenary sessions. Our questionnaire contained nine multiple-choice knowledge questions out of which five were related to actual numbers such as the unemployment rate in the area, in Hungary,



in the EU and another four were rather related to legal rules such as eligibility for social welfare and support and were more of a textual character. Overall it can be said that the knowledge index<sup>8</sup> was significantly higher both after the deliberation and a year later than before the event. Although there was a slight drop in levels of knowledge a year later, we can still talk about both a short term and a lasting change in information gain. The qualitative and quantitative questions didn't follow the same trends: information about numbers didn't increase significantly, while the change rather occurred due to the higher level of knowledge in terms of qualitative information about the industrial profile of the area and the legal rules (see Graph 1).

*Graph 1: Knowledge gain (T1 – T3 – T4 )(n=90)  
(probability/item of knowing the correct answer)*



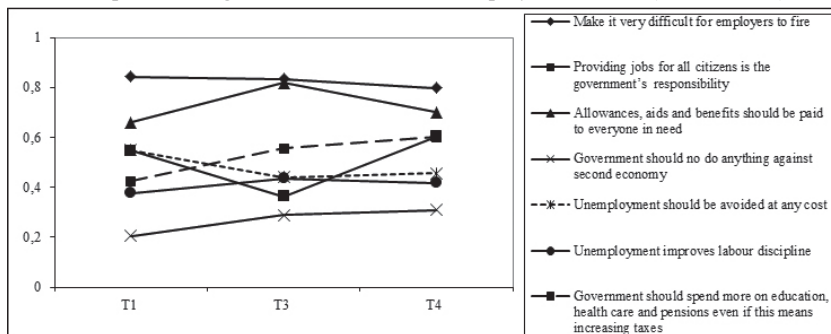
*T-tests: Textual Items: TIT3  $t = 3.29^{***}$ , TIT4  $t = 2.15^{**}$ ,  
Numerical Items: TIT3  $t = n.s.$ , TIT4  $t = n.s.$*

Interestingly, however, when we look at the control group, a similar trend is detectable: there was a significant increase of knowledge during the year between the pre-deliberation survey (T1) and the follow-up survey (T4), but in their case the change was rather due to the increase in knowledge of the numerical facts. As no significant differences existed between the participants and the control group in the long term regarding knowledge-level, we can't say that the changes occurred in information gain were clearly due to the deliberative event. Deliberation resulted in a short and long term knowledge gain in terms of *qualitative* information. This knowledge gain however is contingent since in the meantime members of the control group also became more knowledgeable about facts and especially figures of unemployment, that is about *quantitative* information. In the long run therefore according to our results deliberation has to do with the *type* and *not* with the *level*

of knowledge-gain.<sup>9</sup> It would have been interesting to investigate whether it was the case in the short run too. At that time (T3) however we didn't have a control group.

Regarding the changes in terms of attitudes and opinion two themes were addressed in our questionnaire: attitudes towards (1) unemployment with related issues of the economy (market, foreign investments, the role of the government and personal responsibility in providing jobs, etc.) and (2) European integration processes. Changes in opinion and attitudes showed different patterns in the case of the different questions<sup>10</sup>. Regarding attitudes towards unemployment issues (see Graph 2) the share of those who thought that it's the government's duty to provide jobs for everyone (as opposed to one's own responsibility) significantly decreased in short term (from 38% to 17%) but increased over the original level a year later (43%). A similar pattern could be detected regarding opinions about allowances that should be paid to everyone in need: solidarity increased after the deliberation (from 53% to 80%), but it didn't last a year later (59%). In both cases the control group showed very similar attitudes before the deliberation and a year later which means that both the increased solidarity and the increased self-responsibility were an effect of the deliberative event and did only generate a temporary change. Nevertheless, long term effects could be detected in the case of the opinion about government's increased role even at the cost of increased taxes. Positive opinion increased from 28% to 34% and was 42% a year later. A similar trend could be detected in case of the governments' role in the regulation of the second economy.

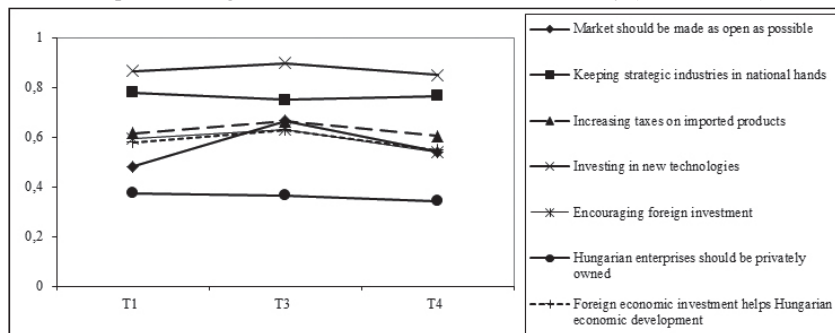
Overall, among the 7 questions concerning employment issues, in the case of 4 there were significant short term changes, and there were long term changes in the case of 2 questions.

*Graph 2: Changes in attitudes towards employment issues (T1 – T3 – T4)**Significant changes:**Providing jobs for all citizens is the government's responsibility:**T1T3 t = -4.429\*\*\*, T3T4 t = 6.286\*\*\***Allowances, aid and benefits should be paid for everyone in need:**T1T3 t = 3.503\*\*\*, T3T4 t = -3.628\*\*\***Government should not do anything against second economy: T1T4 t = 1.872\***Unemployment should be avoided at any cost: T1T3 t = -1.989\***Government should spend more: T1T3 t = 2.632\*\*\*, T1T4 t = 3.569\*\*\**

In terms of the attitudes towards the market economy participants became more positive towards the idea of an open market right after the deliberation, but this change didn't have a significant lasting effect a year later according to the average of the answers (see Graph 3). However, when looking at the distribution of the answers there are some realignment over time.

Attitudes towards foreign investments showed a different pattern: a slight positive change after the deliberation and significant drop a year later. Initially 24% of the participants of the deliberation were against encouraging foreign investments (1-2 answers on a 1-5 scale) that decreased somewhat to 13% after the deliberation but grew again to 38% a year later. In parallel with this trend, initially 48% thought that foreign investments help Hungarian economic development that increased somewhat to 56% after the deliberation and dropped back to 39% a year later.

Overall, among the 7 questions concerning economic issues, there was significant short term (T1T3) change in case of one question, and there was no significant long term (T1T4) change in this respect.

*Graph 3: Changes in attitudes towards market economy (T1 – T3 – T4)*

*Significant changes:*

*Market should be made as open as possible: T1T3 change  $t = 3.864^{***}$*

*Investing in new technologies: T3T4  $t = -1.858^*$*

*Encouraging foreign investment: T3T4  $t = -2.187^{**}$*

*Foreign economic investment helps Hungarian economic development:*

*T3T4  $t = -3.046^{***}$*

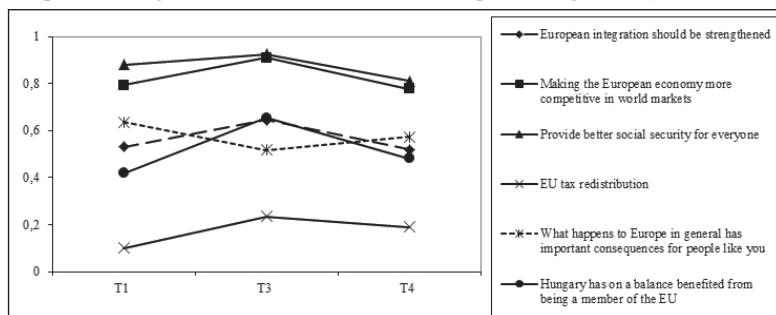
Regarding the perception of the European integration project the attitudes were more changeable over time which could be a sign that opinions or attitudes in this subject are not that crystallized yet due to the distant, abstract and complicated character of the subject of the European Union that generates low public interest (see Graph 4). There was only a short term change in terms of opinions on the integration that should be strengthened, on the perception of the benefits of the EU for Hungary and on the need to make the EU more competitive in world markets. Compared to the control group the pattern of the answers before the deliberation and a year later was very similar among the two groups, which means that in the case of these questions the temporary changes are also to be drawn back to the deliberation.

There were however long lasting changes too, in terms of the increased tax level to be distributed at the EU level and the decreased share of people thinking that what happens at the EU level has a consequence on their life. In terms of tax redistribution, the initial 10% to be attributed to the EU level has increased to 23% and a year later was still 19%. Regarding the perceived consequences on one's life there was an important decrease due to the deliberation among the participants (from 28% to 8%) which went back to some extent a year later but still represents a drop (20%). In terms of opinions before the deliberation and a year after, the general trends of participants' opinion are in line with the control group where there was significant decrease as well (from 28% to 15%).

Besides these trends, better social security as the main aim for the EU showed a changing pattern independent from the deliberation as there was no immediate effect, it decreased only after it.

Among the 6 questions concerning European integration issues nearly all were affected by a short term change with the exception of one question, and there were lasting changes in case of three of them.

Graph 4: Changes in attitudes towards the European integration (T1 – T3 – T4)



*Significant changes:*

*European integration should be strengthened:*

*T1T3 change  $t = 2.458^{**}$ , T3T4  $t = -2.324^{**}$*

*Making the European economy more competitive:*

*T1T3 change  $t = 3.191^{***}$ , T3T4  $t = -4.021^{***}$*

*Provide better social security for everyone:*

*T3T4 change  $t = -3.66^{***}$ , T1T4  $t = -2.14^{***}$*

*EU tax redistribution: T1T3 change  $t = 3.005^{***}$ , T1T4  $t = 2.707^{***}$*

*What happens to Europe in general has important consequences for people like me:*

*T1T3 change  $t = -2.901^{***}$ , T1T4  $t = -2.135^{**}$*

*Hungary has on a balance benefited:*

*T1T3 change  $t = 2.634^{**}$ , T3T4  $t = -2.304^{**}$*

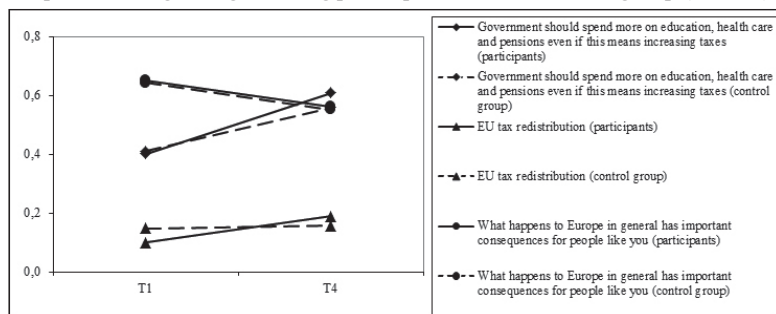
Overall there were *short term changes in half of the investigated 20 attitude/opinion items* and *long term changes in a quarter of them*.

To set up a *typology*, four patterns of attitude and opinion change can be discerned. Due to partial overlapping between short and long term changes there was *no significant change whatsoever* in the case of 8 questions (such as keeping strategic industries in national hands, increasing taxes on imported products, investing in new technologies, that Hungarian enterprises should be privately owned, that it should be made very difficult for employers to fire staff, that unemployment should be avoided at any cost, that unemployment improves labour discipline and that government should not do anything against illegal work). In the case of 6 questions the deliberation had an immediate effect on opinions

but this was *not lasting* and opinions went back to close to their initial levels a year later. This was the case of the attitudes towards an open market, that it's the government's duty to provide jobs for everyone, that allowances should be paid to everyone in need, that European integration should be strengthened, that the EU should become more competitive and that Hungary has benefited from its EU membership. In most of these cases the control group confirmed that the changes were only temporary as there was no change among them and the differences between the participants and the control group were not significant either.

In the case of another 3 question, however, a *lasting change* could be detected. Attitudes towards government increased spending with increased taxes, increased EU redistribution and decreased consequences of the EU in one's life all showed a durable change. In the case of these questions it is interesting to see whether the effects are to be drawn back to the deliberation or an overall change in the opinion climate (see Graph 5). In the case of the government spending and the consequences on EU events on one's life the changes were in line with changes occurring among the control group, which means that these changes can't be directly associated with the deliberation but rather with a change in the overall context. As opposed to these trends, the case of the question of EU tax redistribution showed a different pattern. There was an initial gap between the participants and the control group which decreased to some extent after the deliberation. Before the deliberation the participants were significantly less open to the EU level redistribution than the control group (10% vs. 15%) - by this change the participants did exceed the level of the control group where the opinions on the matter remained unchanged after the deliberation (19% vs. 16%).

Graph 5: Lasting changes among participants and the control group (T1 – T4)



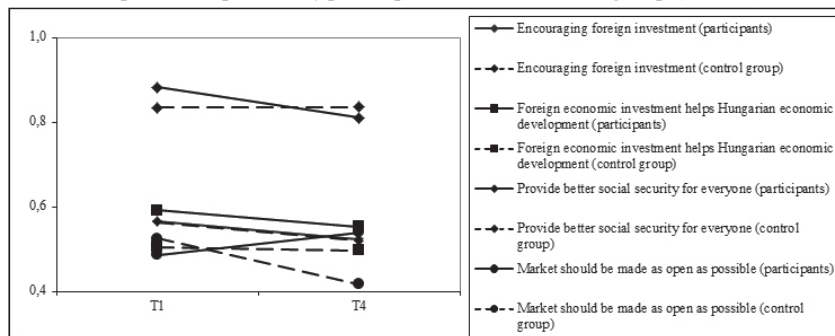
Significant changes among the control group:

Government should spend more: T1T4 change  $t = 3.146$  \*\*\*

What happens to Europe in general has important consequences for people like me:

T1T4 change  $t = -2.249$  \*\*

The last group of changing patterns is when there was no immediate effect of the deliberation but opinions still changed a year later, that is *only long term change* could be detected. This was the case of 3 questions: on encouraging foreign investment, that foreign investments help Hungary and that the EU should stand for better social security. In these cases comparison with the pattern followed by the control group is also important. It can provide an explanation why these changes happened, whether it was due to a change in the overall opinion climate or the national/ international environment as the spring of 2009 was especially difficult in Hungary due to both the world financial crisis and the Hungarian economic crisis and people's attitudes towards the foreign investments and social security might have changed (see Graph 6). Attitudes about encouraging foreign investments showed a very similar trend among the participants and the control group with only a slight drop back over one year, which was nevertheless not statistically significant, so in this case we might talk about the effect of the changing environment. Regarding the opinions about how helpful foreign investments are for the Hungarian economy there was an initial gap between the participants and the control group with participants being more positive in this respect. A year after the opinion of the two groups became closer. However, regarding these two latter questions, the slight increase followed by the significant drop back of the support for foreign investment among the participants mentioned earlier might be the effect of the deliberation. Regarding the wish for a social Europe the opinions remained unchanged in the control group, while participants experienced a decrease during the year after the deliberation – they followed a different trend in this respect, but still, there was no significant difference between the participants' opinion and the control group's opinion.

*Graph 6: Comparison of participants and the control group (T1 – T4)*

*Significant change within the control group:*

*Market should be made as open as possible: T1T4 change  $t = -2.145^{**}$*

Another interesting case is the attitudes towards an open market where only immediate change happened with no lasting effects of the deliberation as mentioned earlier. However, comparing this trend to the control group it seems that while no significant change happened in the long term among the participants (in terms of the average answers), the control group became significantly more reluctant towards the open market. While there was no significant difference between the groups at the beginning, a year later DP participants were more positive towards the idea of an open market than the control group. In this sense, we might hypothesize that after a short positive change followed by a drop back, the stability of the opinions of the participants on the long run was the effect of the deliberation – without this, opinions would have negatively changed.

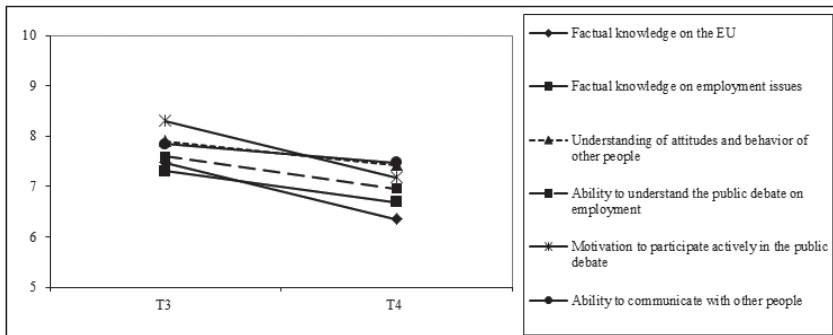
Taking all changes and differences compared to the control group into account that has been already analysed so far it can be said, that there were two questions where the significant change was probably due to deliberation itself, although with a different pattern. In case of the share of tax to be allocated to the EU level the initial opinion of the participants was significantly different from the control group with allocating a lower share of taxes, however, a year later, with no changes among the control group, the participants' opinion on the matter increased to their level. As for the other question on the open market, as detailed previously, there was no significant difference at the beginning between the two groups, but the gap became significant a year later with the opinion of the control group showing a great drop while the opinion of the participants remained relatively unchanged.



## EVALUATION OF THE EVENT

Another interesting result of the deliberative event is the evaluation of its effects and efficiency by the participants themselves. In terms of what skills or knowledge was improved by the event participants mentioned first of all the increased motivation to participate actively in the public debate (75%), but it also served to better communicate with other people and better understand their attitudes and behaviour (68-69%). A lower number of participants mentioned that the event served to assist in comprehending the public debate on employment or to improve their knowledge on employment issues or on the EU. A year later, a significantly lower number of participants mentioned that the event served to improve their factual knowledge on the EU or employment issues just as their ability to understand and participate in public debate in these issues (see Graph 7).

*Graph 7: Evaluation of the deliberative event – perceived improvement of knowledge/skills (T3 – T4) (average on a 0-10 scale)*



*Significant changes:*

*Factual knowledge on the EU:  $t = -3.328^{***}$*

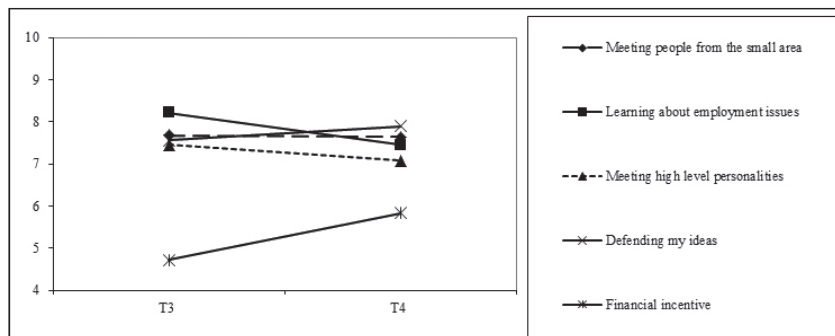
*Factual knowledge on employment issues:  $t = -1.967^*$*

*Ability to understand the public debate on employment:  $t = -2.067^{**}$*

*Motivation to participate actively in the public debate:  $t = -3.302^{***}$*

As for their motivation to participate to the event, learning about employment issues was significantly less mentioned a year later than right after the event, and more importantly the financial incentive they got gained more importance (see Graph 8).

*Graph 8: Evaluation of the deliberative event – motivation for participation (T3 – T4) (average on a 0-10 scale)*



*Significant changes:*

*Learning about employment issues:  $t = -2.246^{**}$*

*Financial incentive:  $t = 2.300^{**}$*

## FACTORS INFLUENCING THE CHANGES

In the previous part we saw how the different aspects of the opinions and attitudes changed after the deliberation and whether these changes were lasting. In this part the question is what factors are affecting the overall change in opinions and attitudes. In order to analyse this, linear regression models are used testing the effect of information and social-demographic factors on the opinion and attitude changes. The dependent variables used are opinion change indices where first the opinion changes are calculated from the pre-and post deliberation answers (T1T3) and from the pre-deliberation answers and the answers given a year after the deliberation (T1T4) to the set of 20 questions described previously. Then the absolute value of these variables is summed up in two additive indices that stand for the short and long term changes. These indices sum up the intensity of opinion change, however, they contain no information on the direction of these changes. Our original aim being to provide explanation on the socio-demographic background of opinion changes, these indices are suitable.

As for the explaining variables, we have included several socio-demographic variables such as gender, age, education. In order to include information on one's material resources we used a proxy measuring the quality of the neighbourhood recorded by the interviewer. Besides these variables knowledge change indices were also used in our models as a more substantial determinant of the opinion change based on the assumption that opinion change occurs due to the increased level of information and knowledge gain.

Four regression models were built, three among the participants of the deliberative event measuring short term and lasting changes and one model where the control group was also included in order to measure the effect of the deliberation itself on the long term opinion changes (see Table 2).

Regression models show that men were more open to change their opinion than women (see Model 1), however, this is only true in case of short term opinion changes, it doesn't determine lasting effects of the deliberation. Besides, the unemployed changed their mind less frequently than employed. According to table statistics gender had, and unemployment had no significant effect on short term opinion change. When these impacts were controlled for other variables (education, knowledge gain, material conditions) both gender and being unemployed have significant effects on the short term. If we take into account the general trends of opinion change *during the deliberation*, that *solidarity has overall increased*, it is not surprising that the unemployed changed their opinions less than non-unemployed who might have become more socially sensitive in the matter. On the other hand, the other main trend of the opinion changes, the increasing level of self-responsibility regarding finding a job should have affected the unemployed themselves. Regarding why men are more affected by opinion change a possible explanation can be that men participate more in public debate and they are also more likely to hold extreme opinions than women – but these explanations can't be directly verified here. At the same time, those who changed their opinion more were also those who found the event as a whole more valuable in helping them clarify their position on the issues and those who felt more active during the informal and social parts of the event. In parallel with this, men were also more likely to find the event more valuable in this sense than women with an average of 7.51 vs. 5.96 on a 0-10 scale.

In the longer run there is a similar trend, however, this connection is not significant (see Model 2). Higher education, i.e. university degree was against opinion change, which could be explained by more established opinions and cognitive mobilization skills.

If we include the immediate (TIT3) impact of the deliberative event into the explanation of the long run (TIT4) opinion changes of the participants (see Model 3) it proves to be the single most important explanatory factor, it overwrites the effects of gender and education as well. Even the impact of knowledge change proves to be unimportant when investigated together with the short run opinion change index.

If we investigate the long term impact of DP-participation on opinion change (see Model 4) it proves to be all in all insignificant. None of the explanatory

variables prove to be significant, except for education which counter-indicates opinion change. Interestingly there was no significant difference between the participant group and the control group in terms of the intensity of opinion change. In this sense it seems that in the long term, the deliberation had no lasting effect – opinions have changed anyway and that was not explained by the participation in the event. Overall, although it is not a significant association, it is still the most important –negative - finding of our paper.

*Table 2: Linear regression models (unstandardized regression coefficients)*

	Model 1		Model 2		Model 3		Model 4	
Dependent:	T1T3 opinion change		T1T4 opinion change		T1T4 opinion change		T1T4 opinion change	
Constant	5.044	***	5.579	***	3.019	***	6.021	***
Male	.790	**	.611		.220		.205	
Unemployed	-.870	*	-.116		.313		-.146	
University	-.693		-1.022	*	-.659		-.712	*
Wealthy neighbourhood	-.010		.233		.248		-.156	
T1T3/T1T4 knowledge change	-.058		-.089		-.076		-.037	
T1T3 opinion change					.509	***		
Participated to the deliberation							-.183	
R Square	.094	n.s.	.062	n.s.	.249	***	.028	n.s.
n=	90		90		90		186	

*Statistical significance: \*\*\* < 0.01, \*\* < 0.05, \* < 0.1*

However, the models presented here are not significant ones, with the exception of the one where previous opinion change is included among the explaining factors. This means that the variables included are not the one determining the intensity of opinion change. The included variables explain 9% in the case of the immediate opinion change, but only 3-6% of the long term changes.

Besides technical issues concerning the low base size and the construction of the additive opinion change index, the inclusion of other substantial explanatory variables could be considered. It seems that age, activity/inactivity or media usage don't have a significant impact on opinion change either. On the other hand, when trying to build models on the opinion change in separate questions without any aggregation, the results are similarly insignificant. The opinion change concerning a question is mostly defined by the previous opinion on that matter – without any effects of the mentioned socio-demographic or substantial variables.

Level of education had a negative effect on opinion change in the first models, but other basic socio-demographic characteristics don't influence it significantly.

## CONCLUSION

In the literature there is much criticism of the applicability of the deliberative social *model* therefore the debate on deliberation should be supplemented with empirical testing. The deliberative *methods* may offer many advantages but they also have several problems. Reviewing the empirical studies on deliberation it turns out that there are relatively few quantitative and reliable analyses, there are many questions e.g. how does deliberation really work. It was found that opinions do frequently change, but "most empirical analyses do not explain the patterns of opinion change or lack of change" (Barbaras 2004: pp 688).

The protocol of Deliberative Polling suggests follow-up research to determine if the opinion changes are temporary or lasting. The control sample surveyed simultaneously allows an assessment of the effect of deliberation and the effect of other factors e.g. public discourse or crisis. Similarly to the Kaposvár Deliberative Poll participants of follow-up research conducted in Denmark "reverted somewhat to their initial opinion position" and measured persisted "increase among the participants in the level of knowledge" (Hansen&Andersen 2004: pp 271-276). As for knowledge change after the deliberation, the Kaposvár experience shows significant and lasting knowledge gain with two important qualifications. First, this is true only in the case of the textual items, because knowledge about numerical items didn't grow in the short run. Qualitative and quantitative information had different chances to influence the knowledge of Deliberative Poll participants (Fishkin et al. 2009). Second, in the long run knowledge level grew within the control group as well. While the impact of Deliberative Polling had mostly to do with textual knowledge, in the control group of the local population the knowledge about quantitative information grew. It might be thought that it was the impact of the crisis: information about the numeric facts of unemployment became known. However, in this case the growth should have been detected among Deliberative Poll participants as well. The difference may have to do with the Deliberative Poll discussions *and* with the age composition of the samples. Due to the self-selection of the Deliberative Poll sample, elderly were over-represented among the participants.

As for information gain all in all there is a significant lasting growth in knowledge level. This *level* however doesn't differ significantly from that of the control group. What does differ is the *type* of the changes: Deliberative Poll

participants knew more about qualitative, while control group members about quantitative facts of unemployment.

In terms of *attitude change*, in two out of five items there was no change at all. In every third items the changes were temporary only. In two cases out of the twenty were the changes lasting, due to the effect of the Deliberative Poll. The two items were ideologically sensitive ones: the higher proportion of tax redistribution on the EU-level and the open market.

The empirical results of the Kaposvár follow-up survey show that the Deliberative Poll had minor lasting effect on people's mind. *In the short run*, immediately after the event the knowledge of participants grew significantly, they changed their mind in several issues, among others they became more tolerant towards the unemployed and their opinion became more balanced. They evaluated the event enthusiastically and they felt that they would be more ready to participate in further public debates. One year later, *in the long run* most of these *effects disappeared*: the level of knowledge and most of the opinion change didn't differ from that of the control group, while the evaluation of the event – although remained positive in most of the dimensions – became less enthusiastic.

Deliberative Polling does not permanently change people's mind according to our results. For those who want to experiment with the forms of participative democracy it may sound like bad news. But it may contribute to the improvement of the methods of decision making. Even if temporarily, it can efficiently contribute to providing better information for citizens and it can enhance the readiness of laymen in the short run to participate in public affairs. Prior to important collective decisions it may help to counterbalance the two major problems of voting practices and other forms of decision making: ignorance and disinterest. Better informed and motivated citizens will be ready and more likely to participate after these events.

There is one additional aspect however which is worthwhile studying carefully. Deliberative Polls are not only about knowledge gain and arguing. Emotions and stories count as well. In our case the side effects of the emotional dynamics of the event were mostly positive: tolerance and trust grew (even if temporarily). More evidence is needed if it is always (or typically) the case. It looks likely that arguing and being informed help to form balanced opinions. But it is to be studied how emotional dynamics of these events influence the passions of the majority and of opinion leaders in the short and in the long run.

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## NOTES

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- 4 The paper was also presented at the Workshop on “Frontiers of Deliberation”, ECPR Joint Sessions, University of St. Gallen, April 13-16, 2011 and was partially supported by the INTUNE Project
- 5 Deliberative Polling was conceived by James Fishkin in 1988. The research program since that time has been a collaboration with Robert C. Luskin.
- 6 The results are available in the volume “Deliberative Methods in Local Society Research. The Kaposvár Experiences” (ed. by Gy. Lengyel, Budapest, CESR, 2009) <http://www.uni-corvinus.hu/index.php?id=23241>
- 7 In the following tables and graphs T1 will refer to the original representative survey, T3 to the survey after the deliberative event done with participants and T4 to the survey done a year later among participants and the control group. (T2 refers to the survey done right at the beginning of the DP, but this won't be addressed in the current paper.)
- 8 Additive indices were created from the nine knowledge items.
- 9 It would have been interesting to investigate whether it has been the case already in the short run. At the time of T3 however we didn't have a control group yet.



- 10 Only significant changes (at the  $p < 0.1$  or higher level) will be reported in the statistics. The different questions were asked on different scales (1-5, 1-7, 0-10). In order to make them comparable all scales were recoded into a 0-1 scale.



*ÉVA PERPÉK<sup>1</sup>*

## **FORMAL AND INFORMAL VOLUNTEERING IN HUNGARY: SIMILARITIES AND DIFFERENCES**

### **INTRODUCTION**

The paper focuses on formal (organizational) and informal (non-organizational) voluntary work from a comparative approach. The relevance of the topic comes from the fact that 2011 had been proclaimed as the European Year of Volunteering by the European Commission and the Council. The timing is not accidental, ten years have past since the United Nations announced the International Year of Volunteers in 2001<sup>2</sup>. Another factor highlighting the importance of the present research is that in Hungary scarcity of representative statistical analysis is documented on formal and informal voluntary work.

### **EXPLANATIONS ON VOLUNTEERING: PREVIOUS RESEARCH OUTCOMES IN A NUTSHELL**

The key explanatory variables of my research on formal and informal voluntarism are human, cultural, social capital; traditional (old or rather altruistic) and new (modern or rather instrumental) motivation. Within this present research voluntary work is defined as non-paid voluntary activity doing a favor by non-family members or social groups, thus contributing to the strengthening of a community (Czike - Kuti 2006:13). This description first calls our attention to the fact that voluntary activity – no matter whether formal or informal – as a way of individual community participation per definition, contributes to meso level community development. Secondly, contradicting many definitions emphasizing organizational outlines, this one widens the frames with extra-organizational assistance. Moreover, sharing Wilson and Musick's (1997:694) opinion, volunteer work is a productive and collective work that requires human, cultural and social capital at micro level. The majority of international research focuses on formal voluntarism, therefore most findings below refer to organizational assistance.

## HUMAN CAPITAL

Education is commonly applied to measure human capital. The positive impact of education on voluntary participation has been confirmed in many previous studies (Smith 1994:248). The evidence of research coming from the US National Longitudinal Survey of Youth (Caputo 2009) highlights that the probability of activist and non-activist (mixed) voluntarism increases alongside with educational levels. Multinomial logistic regression is chosen to examine determinants of civic engagement activities. Wilson and Musick (1997) delivered a research based on two-waves of (1986 and 1989) data of Americans' Changing Lives panel. They also confirm that education has a positive effect on helping others.

At the same time Smith (2006) revealed a very weak correlation between education and volunteerism in 2002 and 2004 data of the American General Social Survey (Smith 2006). Similarly, results of Van Ingen and Dekker (2011) indicate almost disappearing differences between voluntary participation of lower and higher educated people in the Netherlands.

It is generally accepted that volunteerism is more common among the economically active citizens. This fact is confirmed by the Eurobarometre (2010): based on a frequency table, three-fourths of helpers are employed, nearly half of them work in the public sector and more than one-third in business or the private sector. Approximately, a fifth of the volunteers are homemakers or are unemployed. A recent study underlines that voluntary work has become more widespread among the economically inactive inhabitants (pensioners or homemakers) in the Netherlands (Van Ingen - Dekker 2011) from 1997 to 2005. Similarly, an American longitudinal data analysis (1978-1991) on young women's cohort underlines that "*...homemakers are more likely to volunteer than are full-time workers, followed by part-time workers.*" (Rotolo - Wilson 2007:487). Within the present research education and economic activity are also used as human capital indicators.

A positive relationship has been found by numerous researchers between income and helping others (Clary - Snyder 1991; Hayghe 1991; Hodgkinson - Weitzman 1992; Pearce 1993; Smith 1994). Poor people are three times less likely to be asked to volunteer than the wealthy people (Hodgkinson 1995; Wilson - Musick 1997). Reverse impact was also measured: based on a Canadian research data, volunteers earn 7% more than those who have never participated in such activity (Day - Devlin 1998). Smith (2006) found only a weak correlation between income and volunteerism. Education and income as indicators of human capital feature the so called dominant status of an individual which empowers

stakeholders for volunteer work (Smith 1994; Wilson - Musick 1997). The Hungarian questionnaire did not contain any data on personal or family income in 2004, thus instead of this, occupational group is used as the third human capital indicator in my research.

## CULTURAL CAPITAL

In “volunteer” studies religiosity is the most frequently mentioned indicator of cultural capital. Taniguchi (2010) found out that religiosity was one of the most significant variables influencing voluntarism in the Japanese General Social Survey (2002). Various dimensions of religiosity are connoted with volunteering, e.g. individual belief, prayer, affiliation, church attendance. Impact of church attendance on volunteering increased by time (1975-2005) in the Netherlands, “... *churchgoers increase their volunteering for religious organizations on average.*” (Van Ingen - Dekker 2011:682). Wilson and Musick’s (1997) regression and correlation results revealed a significant relationship between church attendance, and both formal and informal volunteering. According to the research findings of US National Longitudinal Survey of Youth (Caputo 2009), there is a significant relationship between religious participation and activist, non-activist (mixed), and exclusive voluntarism. Wilson and Musick (1997) indicate that prayer as a private form of religious practice has a negative effect on informal voluntary activity. In some concepts of helping, religious participation represents not cultural rather social capital (e.g. Paik - Navarre-Jackson 2011). Regarding religious values, Jendrisak et al. (2006) observed that kidney and liver segment living donors do not possess traditional religious values. Religious belief and theological thoughts seem not to be the best predictors for the quantity of voluntary work (Cnaan et al. 1993). Nonetheless, religious behavior is considered to be a better predictor for volunteering (Wilson - Musick 1997), but there is no data on public religiosity in examined Hungarian data sets. Therefore, subjective religiosity is used as a cultural capital indicator within this study.

Ruiter and De Graaf’s (2006) comparative research in 53 countries monitored both individual religiosity, national religious context and their interaction on volunteering. By their findings regular churchgoers do voluntary work more frequently. If only devout countries are observed, church attendance is hardly a relevant factor for volunteering, and there is only a slight difference between religious and secular people. They reported a spillover effect of religious voluntarism, “...*implying that religious citizens also volunteer more for secular*

*organizations. This spillover effect is stronger for Catholics than for Protestants, non-Christians and nonreligious individuals.”* (Ruiter - De Graaf 2006:191).

Parental patterns as a possible way of incorporated or embodied social capital [Bourdieu 2006 (1983)] may also contribute to volunteering. Fitzsimmons (1986) concludes that parents affect their children’s future voluntary activity differently. Whilst the father’s involvement has a positive impact, the mother’s participation has a negative effect on it. The analysis was conducted by multiple regression (N=424 baccalaureate graduates). Outcomes of Caputo (2009) expose that parental religious affiliation, fundamentalism and socialization influence American exclusive voluntarism. Besides, parental voluntarism and socialization have an impact on mixed (activist and non-activist) voluntary activities, parental devotion also affects activist voluntarism. In my research family tradition is used as one item of traditional motivation for volunteerism.

Wilson and Musick (1997) apply the variable ‘how much the respondent values helping others’ to measure one aspect of social capital. Their results delineate that this value-oriented item has a positive effect on both formal and informal voluntary activity. In the Hungarian database a similar question is recorded, and involved into analysis: it is a moral obligation to help people in need (1993) or poor people (2004).

## SOCIAL CAPITAL

Among others, Taniguchi (2010) underlines that social capital variables are stronger predictors of how much voluntary work is done than demographic or socioeconomic ones (Japanese General Social Survey 2002). One of the influencing variables, having a positive effect on voluntarism is the frequent face-to-face contact with friends; especially people, in contact with foreigners, volunteer more than those who do not exercise such activities. Likewise, Wilson and Musick (1997) also found that informal social interaction has a positive effect on both formal volunteering and informal helping. On the basis of the ‘contact frequency’ hypothesis (McPherson et al. 1992) people who interact more with friends and acquaintances, more probably become volunteers.

The number of children in the household is used as a familial social capital indicator in Coleman’s (1998) well-known study on the role of social capital in the creation of human capital. Smith (1994) found a positive relationship between the presence of children and volunteering. Wilson and Musick (1997) indicate that the number of children determinates the formal type voluntarism. *Rotolo and Wilson state the following: “Mothers of school-age children are the most likely to*

*volunteer, followed by childless women and mothers of young children. Mothers of school-age children are even more likely to volunteer if they are homemakers, and mothers of pre-school children are even less likely to volunteer if they work full-time.” (Rotolo -Wilson 2007:191; American database on Young Women’s Cohort of the National Longitudinal Survey 1978-1991).* The presence of children in a household is a key variable in the analysis of US National Longitudinal Survey of Youth (Caputo 2009) too: this variable affects the likelihood of all type of voluntary activities: exclusive activism, exclusive voluntarism and mixed motivation voluntarism.

In Paik and Navarre-Jackson’s model (2011) social and associational ties, religious involvement, and recruitment contacts represent diversity of social networks (US Giving and Volunteering Survey 1999). In their estimated model, recruitment is a significant factor of voluntarism. Recruitment itself is linked with social contact diversity, the number of organizational ties and religious participation. Concerning single variables: *“Religious involvement is associated with higher probabilities of volunteering conditional on being asked, whereas social tie diversity and the number of associational ties increase volunteering among those not asked.”* (Paik - Navarre-Jackson 2011:476).

Brown and Ferris (2007) select two measures of social capital – individuals’ associational networks and trust in others and in their community – when analyzing US Social Capital Community Benchmark Survey’s data (2000). They highlight that social capital explains the philanthropy of individuals very well. In addition, social capital decreases the direct influence of education (human capital) and religiosity (cultural capital) on giving and volunteering. From the measures listed above, the number of children in the household and organizational membership is incorporated into my analysis.

In Hungary there is a scarcity of casual models on voluntary work. Concerning descriptive statistics, average volunteers – no matter formal or informal – completed secondary education, and work as employed manual workers (human capital). They are privately religious, and agree with the principle that ‘it is a moral obligation to help people in need’ (cultural capital). They live in a childless household, and are not affiliated to any social organization (social capital). However, members of organizations help others more than those not belonging to any social institution. (Czakó et al. 1994; Czike, Kuti 2006).

## VOLUNTEER MOTIVATION

*Principal factors for volunteer motivations include rather altruistic and rather egoistic or instrumental driving forces* (Smith 1981; Frisch - Gererd 1981; Gillespie - King 1985), however, the primacy of altruism is an observable fact. After creating and testing the Motivation to Volunteer Scale – composed of 28 reasons –, Cnaan and Goldberg-Glen (1991) note that mixed motivations describe better human service agency volunteers than egoistic or altruistic ones (N=258). Two more meaningful scales have been introduced: Volunteer Functions Inventory (35 statements, 6 factors) (Clary et al. 1992) and Volunteer Motivation Inventory (40 statements, 8 factors) (McEwin and Jacobsen-D'Arcy 2002). The latter scale was improved and tested on large sample data by Esmond and Dunlop (2004), thus motivation dimensions increased to ten. The most important motivation elements of Australian volunteers would be: values, career development, personal growth, self-esteem and social interaction. The improved Volunteer Motivation Inventory was implemented into the Hungarian situation by Bartal and Kmetty (2010) (N=2319). According to previous research outcomes (Czakó et al. 1994; Cziike - Kuti 2006), the authors conclude that Hungarian volunteerism is altruistic value-oriented. Moreover, organizational recognition, social interaction and environment factors appear to be influential.

In case of Israeli National Service volunteers, primarily parents and friends affect decision making. This fact indicates the importance of strong and weak ties. The three strongest motivations are: altruism, environmental pressure and idealism (Sherer 2004) (N=40). Turkish community volunteers are also moved by altruism; furthermore, by affiliation and personal improvement (Boz - Palaz 2007) (N=175). An American-Canadian comparative representative research (Hwang et al. 2005) differentiates collective and self-oriented causes. *“Findings show that Americans are more likely than Canadians to mention altruistic rather than personal reasons for joining voluntary organizations, and Canadians are slightly more likely than Americans to emphasize personal reasons for their volunteer work, but this difference is not significant after controls.”* (Hwang et al. 2005:387). Hustinx et al. (2010) compares 5794 students in six countries. They argue that while volunteering is a personal decision at individual level, it is partly influenced by macro-social factors too.

From the motivations cited above, altruistic values (good feeling of helping others), strong and weak ties, social interaction and community are labeled as old or traditional motivation. In addition, career development and personal growth



are implemented as new or modern variables in the present research (Czike - Bartal 2005; Czike, Kuti 2006).

## RESEARCH QUESTIONS, HYPOTHESES, METHODOLOGY

In order to understand the research questions more deeply, at first data sources should be outlined. Empirical evidences of the study come from secondary analysis of two Hungarian representative surveys' data conducted in 1994 and 2005. In 1994 nearly 15 thousand adult respondents were interviewed on individual giving and volunteering. The 2005 data collection referred to a section of the Hungarian population aged above 14 years. This sample contained nearly 5 thousand people. The basis period of the questionnaire was the previous year in both cases: 1993 in the first and 2004 in the second wave.

Some researchers argue that formal and informal volunteering is strongly and positively correlated (Smith 1994; Gallagher 1994; Wilson - Musick 1997). The general question to answer within this paper is whether *qualitative* differences – in activity, composition, motivation – can be observed between Hungarian formal and informal volunteers or not. Using the word “qualitative” is reasonable because the proportion of formal and informal volunteers is more balanced in Northern and Western Europe than in Hungary and Central and Eastern European countries in general. For instance, whilst 10% (900 thousand people) of the population above 14 years was registered as formal volunteer, the proportion of non-organizational volunteers reached 30% (2.6. million people) in Hungary in 2004 (Czike -Kuti 2006:33-34.). This means that a *quantitative* inequity already exists between the two groups. The second comprehensive question would be the following: if such qualitative difference exists, which is the more up-to-date form contributing to community development and local development.

The *first* concrete research question would be that, (1A) Does the way of volunteerism (formal or informal) have an effect on frequency of activity? If yes, (1B) Is there any change by time? I expect that the form of helping does affect regularity: formal or organizational volunteers work more frequently than informal ones in both period of time ( $H_{1,a}$ ). Moreover, I assume that the role of organizations strengthens by time ( $H_{1,b}$ ). A dependent variable of this hypothesis is the frequency of helping, an independent variable is the formal and informal volunteering dummy. The dependent variable is actually measured on a 7 point ordinal scale (1: on a special occasion, 7: every day). The measurement level of this variable originally would not allow using linear regression, but this scale offers a possibility to “overestimate” it, and handle it as a numeric variable. In order

to compensate this statistically not perfectly correct procedure, I do introduce a dummy variable – where 0 represents ‘volunteers rarely’, and 1 means ‘volunteers frequently’ – thus besides linear regression logistic regression is applied as a complementary method. Formal volunteers’ stronger activity ( $H_{1,a}$ ) requires positive  $b_1$  coefficient and  $\text{Exp}(b)$  coefficient above 1 in hypothesis testing either in 1994 or 2004. The increasing role of organizations ( $H_{1,b}$ ) implies higher  $b_1$  and  $\text{Exp}(b)$  coefficients in 2004.

The *second* research question concerns the respondent’s social status and form of volunteering. Namely: (2) Which way of voluntary activity is chosen by those with higher social status? I suppose that high-status people prefer organizational helping ( $H_2$ ). Verification of this hypothesis would mean that formal volunteers are recruited from more prestigious members of the Hungarian society than the informal ones. Dependent variable of the second hypothesis is formal and informal volunteering dummy.

Higher social status is conceptualized by human, cultural and social capital, each of them measured with a composite index. These independent variables are inspired by Wilson and Musick (1997). According to the Hungarian questionnaires’ features, there are three items indicating human capital, and four-four variables referring to cultural and social capital. The second hypothesis is tested by the statistical method of logistic regression. If the hypothesis is verified,  $\text{Exp}(b)$  coefficients above 1 should be observed in both years.

The *third* research question is related to the motivation of volunteers: (3) Are there any differences in motivations of formal and informal helpers? I assume that formal volunteers are derived by modern or new motivators ( $H_{3,a}$ ), whereas informal volunteers are moved by traditional impulses ( $H_{3,b}$ ). Similarly to the second hypothesis, dependent variable would be the form of volunteering as a dichotom variable. Regarding explanatory variables, a good feeling of helping, family tradition, community, acquaintances, and gratitude specify old (Czike - Bartal 2005) or traditional (Czike - Kuti 2006) motivations. Goal achievement, useful leisure activity, experience, self-recognition, professional improvement, and new workplace are labeled as new or modern impulses (Czike - Kuti 2006). Motivations are measured on a 5 point Likert scale. In view of the fact that traditional and new motivations are not derived from multivariate statistical analysis, confirmatory factor analysis is used to oversee the relevance of these two types. Then the factors are involved into logistic regression as independent variables to explain informal and formal volunteerism. Only the 2004 database is involved into the analysis because it contains eighteen statements related to motivation. The 1993 questionnaire includes only nine such questions, but not all of them have their equivalent in 2004.

If the expectations above are confirmed, we can state that formal volunteering is the more up-to-date form contributing to community development and local development.

## MAIN FINDINGS

### First hypothesis on frequency of activity and form of volunteering

The first expectation's zero hypothesis ( $H_0$ ) would be the following: formal or informal way of volunteerism has no effect on the frequency of activity. Observed significance level of t-quotient in both linear and logistic regression is under 5%, so that coincidence as an alternative explanation and  $H_0$  are rejected (*Table 1*). This low significance level attests that relationship between frequency and way of voluntary work is valid to the whole population. The first part of the hypothesis ( $H_{1,a}$ ) is confirmed either in 1993 or 2004: formal volunteers work more regularly than informal ones. At the same time the difference is not so large: in 1993 the estimated value of dependent variables is by 10%, in 2004 by 4% higher among formal volunteers in a linear regression model. The latter outcomes point out that the second part of first hypothesis ( $H_{1,b}$ ) is rejected: the intermediary role of organizations does not increase by time.<sup>3</sup> The reason for this phenomenon could be that along with increasing publicity, prestige of volunteering, and strengthening of civil society in Hungary, people do not need organizations as intermediary tools to volunteer. This possible "explanation" is supported by the fact that in 2004 informal volunteers worked more intensively than eleven years before ( $b_0=2.74$  in 1993,  $b_0=3.86$  in 2004). A more persuasive answer requires further statistical analysis.

**Table 1**  $H_1$ : Results of linear and logistic regression on frequency and way of voluntary work in volunteer subsample in 1993 and 2004

		Frequency of voluntary work	
		Linear regression 0-7	Logistic regression 0-1 Exp (B)
<b>1993</b> N=3719	$b_0$ Informal	2.74***	
	$b_1$ Formal	0.28***	1.28**
<b>2004</b> N=1646	$b_0$ Informal	3.86***	
	$b_1$ Formal	0.14*	1.36**

Source: Database on donation and voluntary work 1994 (KSH) and 2005 (National Volunteer Centre, Non-profit Research Group Association), own calculation.

$p^* < 0.05 < p^{**} < 0.01 < p^{***} < 0.001$ .

Regarding frequency and the form of volunteerism, a logistic regression model proves similar results: the likelihood of regular voluntary work is a bit bigger among formal volunteers than among informal ones either in 1993 or 2004. Thus, the first part of the first hypothesis ( $H_{1,a}$ ) is verified by a logistic regression model too. Since coefficients are not far from 1, meaning no effect, in this case, also, only a weak probability is observed. From another aspect, logistic regression coefficients contradict linear regression model results: the difference between informal and formal volunteers' work intensity slightly strengthens by time. Transferring this into hypothesis testing,  $H_{1,b}$  hypothesis is verified. Due to contradictory findings,  $H_{1,b}$  cannot be convincingly confirmed.

## **Second hypothesis on form of volunteering and human, cultural, social capitals**

In the second hypothesis capital indices as independent variables are simple sums of item scores. Human capital index (HCI, 0-9) is represented by recoded education (0-2), economic activity (0-3) and occupation (0-4). The lowest score (0) goes to those who have a basic educational background, are dependants (students, homemakers) and – logically – do not work (*Table 2*). This group represents reference category in the analysis. Respondents completing higher education, being active workers and independents, get the highest score (9). The index elements are correlated with each other (correlation coefficients range between 0.27-0.69).

**Table 2 H<sub>2</sub>:** *composition and distribution of human capital index in volunteer subsample, in 1993 and 2004*

<b>Human capital index</b>	<i>Recoded response categories</i>	Coding, score	1993 % N=3799	2004 % N=1646
HC <sub>1</sub> Education	Low: primary school or less	0	29.4	24.4
	Medium: vocational or secondary school	1	51.2	58.4
	High: college, university	2	19.4	17.3
HC <sub>2</sub> Economic activity	Dependant: student, homemaker	0	2.7	13.6
	Unemployed	1	6.9	6.7
	Pensioner, person on child-care leave	2	35.3	31.5
	Employed	3	55.1	48.2
HC <sub>3</sub> Occupation	Does not work	0	44.4	51.8
	Employed manual worker	1	22.3	20.8
	Employed non-manual worker, no diploma	2	12.0	11.1
	Employed non-manual worker with diploma	3	15.7	8.9
	Runs his/her own business	4	5.6	7.4

*Source: Database on donation and voluntary work 1994 (KSH) and 2005 (National Volunteer Centre, Non-profit Research Group Association), own calculation.*

*Human capital index is derived from a simple sum of items above:*

$$HCI = HC_1 + HC_2 + HC_3.$$

The cultural capital index (CCI, 0-7) is composed of cultural events as information sources about social organizations (cultural information source, 0-1), sharing of the opinion that 'it is a moral obligation to help people in need' (0-3), subjective religiosity (0-2), and religious events as information sources about social organizations (religious information channel, 0-1) (Table 3). The reference group of cultural capital is represented by those rejecting cultural and religious events as an information channel, not agreeing with the principle of helping the poor as a moral obligation, and not being religious. Respondents sharing the opposite opinions, belong to the fraction having 7 points. Not surprisingly, the highest correlation (0.4) between subjective religiosity and religious event as an information source is measured.

**Table 3**  $H_2$ : *composition and distribution of cultural capital index in volunteer subsample, in 1993 and 2004*

Cultural capital index	Recorded response categories	Coding, score	1993 % N=3799	2004 % N=1646
CC <sub>1</sub>	No	0	82.3	85.3
Cultural information source	Yes	1	17.7	14.7
CC <sub>2</sub>	Does not agree (1-3)	0	2.1	18.8
It is a moral obligation to help people in need.	Partly agrees, partly disagrees (4-6)	1	30.6	25.4
	Rather agrees (7-9)	2	41.7	26.4
	Absolutely agrees (10)	3	25.6	29.3
CC <sub>3</sub>	Non-religious	0	27.6	28.4
Subjective religiosity	Privately religious	1	39.9	49.3
	Publicly religious	2	32.6	22.3
CC <sub>4</sub>	No	0	72.6	77.8
Religious information channel	Yes	1	27.4	22.2

*Source: Database on donation and voluntary work 1994 (KSH) and 2005 (National Volunteer Centre, Non-profit Research Group Association), own calculation.*

*Cultural capital index is derived from a simple sum of items above:*

$$CCI = CC_1 + CC_2 + CC_3 + CC_4$$

The social capital index (SCI 0-6) contains the number of children in the household (0-2), organizational membership (0-1), interpersonal relations as information sources about social organizations (0-1), and acquaintances as motivators to volunteer (0-2). All who have no children, do not affiliate to any organization, are not informed by their personal relations, and are not motivated by acquaintances, get 0. The highest score goes to respondents having two or more children, belonging to an organization, motivated by acquaintances, and using personal connections to get informed. Social capital index constituents are the most independent ones, no substantial correlation is observed between them.

**Table 4 H<sub>2</sub>:** *composition and distribution of social capital index in volunteer subsample in 1993 and 2004*

Social capital index	Recorded response categories	Coding, score	1993 % N=3799	2004 % N=1646
SC <sub>1</sub>	0	0	47.8	45.7
Number of children in the household	1	1	22.9	25.3
	2 or more	2	29.3	29.0
SC <sub>2</sub>	No	0	62.2	71.7
Organizational membership	Yes	1	37.8	28.3
SC <sub>3</sub> Interpersonal relations as information sources	No	0	57.3	52.3
	Yes	1	42.7	47.7
SC <sub>4</sub>	Does not agree (1-2)	0	63.4	47.1
Acquaintances as motivators to volunteer	Partly agrees, partly disagrees (3)	1	12.2	20.9
	Agrees (4-5)	2	24.5	31.9

*Source: Database on donation and voluntary work 1994 (KSH) and 2005 (National Volunteer Centre, Non-profit Research Group Association), own calculation.*

*Social capital index is derived from a simple sum of items above:*

$$SCI = SC_1 + SC_2 + SC_3 + SC_4$$

In order to examine the separate effect of index elements – e.g. education, occupation, religiosity or number of children – on formal or informal volunteering, all of them are also involved into analysis. Index dummies seemed to be rational to introduce because increasing scores in one item are sometimes accompanied by rising scores in one or more items. This is particularly true in case of human capital: higher levels of education means probably higher levels in economic activity and/or occupation group. 0 stands for small amount of capital, whilst 1 replaces a big amount of capital. Dummy recoding is determined by mean and standard deviation of every single capital index. Values ranging from 0 to 4 in case of human capital, and scores between 0-2 in cases of cultural and social capital are defined as low level capital. Respondents possessing more scores belong to high level capital holders.

Zero hypothesis (H<sub>0</sub>) of the analysis would mean that human, cultural and social capitals do not affect the probability of formal or informal volunteering. If capital indices – no matter dummy or not – are taken into account, H<sub>0</sub> is rejected: these three forms of capitals have a significant positive effect on the way of volunteerism (Table 5). We can conclude that the more capital a respondent has, the higher probability of formal volunteerism exists either in 1993 or 2004. Therefore, the second hypothesis is verified in case of capital indices. The highest impact belongs to social capital index dummy in 2004: big amount of social capital

(SC dummy=1) represents 2.5 times higher probability of formal volunteerism. In 1993 social capital's effect was weaker, cultural capital's one was stronger than eleven years later. In 1993 odds of becoming a formal volunteer is more than two times larger among those who own "much" (CC dummy=1) cultural capital. The role of personal networks rises by time, whereas cultural capital slightly loses its importance. Human capital has only a weak positive effect on the form of voluntary work, and no considerable change is observed between the two periods of time.

*Table 5 H<sub>2</sub>: results of logistic regression on form of volunteering and capitals in volunteer subsample in 1993 and 2004*

	<b>Informal and formal volunteering 0-1</b>	
	Logistic regression, Exp(B)	
	<b>1993 N=3799</b>	<b>2004, N=1379</b>
<b>Human capital (HC) index 0-9</b>	1.04**	1.08***
<b>Human capital index 0-1</b>	<b>1.20**</b>	<b>1.23*</b>
HC <sub>1</sub> Education 0-2	(1.08 <sup>0.11</sup> )	<b>1.42***</b>
HC <sub>2</sub> Economic activity 0-3	(1.09 <sup>0.07</sup> )	1.15***
HC <sub>3</sub> Occupation 0-4	1.08**	1.12**
HC <sub>1</sub> + HC <sub>2</sub> + HC <sub>3</sub> at max. 5% sign. level	1.08	3.69
<b>Cultural capital (CC) index 0-7</b>	1.38***	1.31***
<b>Cultural capital index 0-1</b>	<b>2.14***</b>	1.80***
CC <sub>1</sub> Cultural information source 0-1	2.37***	<b>5.45***</b>
CC <sub>2</sub> Moral obligation to help people in need 0-3	(1.07 <sup>0.12</sup> )	(1.08 <sup>0.21</sup> )
CC <sub>3</sub> Subjective religiosity 0-2	1.63***	1.60***
CC <sub>4</sub> Church as information channel 0-1	<b>2.78***</b>	4.06***
CC <sub>1</sub> + CC <sub>2</sub> + CC <sub>3</sub> + CC <sub>4</sub> at max. 5% sign. level	6.78	10.03
<b>Social capital (SC) index 0-6</b>	1.29***	1.45***
<b>Social capital index 0-1</b>	<b>1.93***</b>	<b>2.48***</b>
SC <sub>1</sub> Number of children in the household 0-2	1.19***	1.19**
SC <sub>2</sub> Organizational membership 0-1	<b>1.87***</b>	<b>3.62***</b>
SC <sub>3</sub> Interpersonal relations as information sources 0-2	1.22***	1.42***
SC <sub>4</sub> Acquaintances as motivators to volunteer 0-1	1.47***	1.78***
SC <sub>1</sub> + SC <sub>2</sub> + SC <sub>3</sub> + SC <sub>4</sub>	5.75	8.01

*Source: Database on donation and voluntary work 1994 (KSH) and 2005 (National Volunteer Centre, Non-profit Research Group Association), own calculation.*

*p\* < 0,05, p\*\* < 0,01, p\*\*\* < 0,001. Values in brackets represent insignificant coefficients. Their upper indices show the significance level of the given variable.*



Shifting to the index components, no significant effect can be proved in case of education and economic activity (human capital) in 1993, and obligation of helping poor people (cultural capital) in 1993 and 2004. Education's insignificant impact in 1993 supports Smith (2006) findings on 2002 and 2004 data of American General Social Survey, and partly confirms Van Ingen and Dekker's conclusions (2011)<sup>4</sup>. Insignificant outcomes on economic activity in 1993 contradict previous expectations (Van Ingen - Dekker 2011; Rotolo - Wilson 2007). As we can see, human capital components delineate weak or insignificant probabilities. From this fact we understand more human capital index's low effect. An additional explanation could be that comparing the elements of the three different capitals, human capital indicators are the most unchangeable, objective or tough ones.

The sum of significant coefficients<sup>5</sup> (6.78) outlines that still cultural capital has the strongest effect in 1993. From separate index constituents, religious information source ( $\text{Exp}(B)=2.78$ ) is the most influential item, not only within cultural capital but among other capitals too. Although this item does not describe religious practice very well, no better indicator is found in the questionnaires. Thus, to some degree we can state that religious behavior's anticipated positive effect is affirmed (Musick 1997; Caputo 2009; Paik - Navarre-Jackson 2011).

The religious information channel variable is followed by cultural information sources about social organizations ( $\text{Exp}(B)=2.37$ ). The effect of subjective religiosity is the weakest one among significant cultural capital variables in 1993 and 2004. Based on Cnaan et al. (1993) and Wilson and Musick's (1997) findings, we expected the same results. The altruistic value-oriented variable does not show a significant effect either in 1993 or 2004. This finding contradicts Wilson and Musick's (1997) outcomes who indicate a positive effect of valuing help on both formal and informal voluntary activity.

After religious and cultural events the third important variable in 1993 was the membership in an organization ( $\text{Exp}(B)=1.87$ ) as a social capital item. Organizational affiliation was assumed to be a reasonable item strengthening volunteering (Czakó et al. 1994; Cziike - Kuti 2006). These three leading factors' weight is even larger eleven years later. Contradicting capital index outcomes, not social, but cultural capital's impact is the highest in 2004 (sum of significant coefficients=10.03). The primacy of cultural capital is probably due to two pulling items, namely cultural ( $\text{Exp}(B)=5.45$ ) and religious ( $\text{Exp}(B)=4.06$ ) information sources. Another dominant variable, strengthening social capital would be organizational membership ( $\text{Exp}(B)=3.62$ ) in 2004. In comparison with other social capital components, in this variable considerable growth is measured by

time. This fact is particularly noticeable because organizational membership has been lower among volunteers than eleven years before (*Table 4*).

All in all, since human, cultural and social capitals are defined by the capital indices and they have a significant positive effect on probability of formal volunteering, the second hypothesis is confirmed. If capital components are taken into consideration, four insignificant coefficients are measured.

### Third hypothesis on form of volunteering and motivations

In the third hypothesis confidence of Likert-scale is measured with Cronbach alpha. Its result above 0.8 attests good confidence of the scale. Originally all eleven items – supposed to be traditional and new – were involved into confirmatory factor analysis. Four variables had to be excluded because they belonged to both factors or had low extracted communalities. Finally seven variables remained in the factor structure satisfying all criteria.

According to expectations (Czike - Bartal 2005; Czike - Kuti 2006), factor analysis<sup>6</sup> indicates that the importance of self-recognition, experience, professional challenges, community and personal connections, and useful leisure activity are labeled as new or modern impulses. Community and personal connections originally were expected to belong to traditional motivation. I consider that this new classification is also acceptable because making friends or joining a community, and “using” them as personal resources, play a crucial role, not only in a traditional but in a modern person’s life too.

*Table 6 H<sub>3</sub>: results of linear regression on form of volunteering and motivation in volunteer subsample in 2004*

	Logistic regression, Exp(B)	Significance
Modern motivation factor	Formal voluntary work	
	2.69	0.000
Traditional motivation factor	Informal voluntary work	
	1.01	0.923

*Source: Database on donation and voluntary work 2005 (National Volunteer Centre, Non-profit Research Group Association), own calculation.*

All other new motivations are rather instrumental and related to gaining knowledge, experience and personal improvement. Standard deviation of this factor equals 0.91 which predicts satisfactory fit of the model. Skewness is 0.47 which means a relatively balanced distribution. Only two items belong to traditional motivation: the altruistic impulse, such as the good feeling of

helping others, and family tradition. This altruistic motive is the most popular one among all volunteer respondents. Except for these, joining a community, getting acquaintances, and gratitude were supposed to belong to the traditional group. Goodness of fit in this factor is worse (0.78) than what we saw in the case of new motivation. This outcome is responsible for the weak fit of the entire model as well. The traditional factor's skewness is quite high (-1.59), the negative sign means that a majority of respondents agree with the questions representing traditional items. As *Table 6* illustrates the first part of the third hypothesis ( $H_{3,a}$ ) is confirmed: the likelihood of organizational volunteering is significantly and 2.7 times higher among new motivation holders. No significant relationship is found between traditional motivation and non-organizational volunteering: the second part of the third hypothesis ( $H_{3,b}$ ) is refused. Not only the effect of independent variables is insignificant, but the entire informal model too. However, the good feeling of helping others (Czakó et al. 1994; Czike - Kuti 2006; Sherer 2004; Boz - Palaz 2007) and parental pattern (Fitzsimmons 1986, Caputo 2009 on father's volunteering) seem to be influential variables on volunteering, they do not affect the probability of non-organizational helping together.

## CONCLUSION

The main findings of the research are the following. In the first hypothesis volunteerism has a significantly positive effect on the frequency of work in both linear and logistic regression models. So the regularity part of the first expectation is verified: formal volunteers work more often than informal ones. Regarding the expanding role of organizations, results are ambiguous, as no convincing evidence is produced to accept hypothesis verification.

According to the results of logistic regression in the second hypothesis, odds of formal volunteering as a dependent variable significantly increases alongside with human, cultural and social capital index scores. Consequently, the second hypothesis is confirmed. It is the cultural capital which has the strongest positive effect on the probability of formal volunteering. Outcomes of logistic regression in the third hypothesis point out that according to expectations, the likelihood of organizational volunteering is significantly higher among those respondents who vote for new motivations. Regarding informal helping and old motivations, there is no significant relationship between these two. This underlines that the first part of the third hypothesis is confirmed whilst the second one is rejected.

Summing up the findings, data analysis has confirmed that the group of formal and informal volunteers is significantly different in at least three fields,

such as frequency of activity, prestige and motivations of participants. The main consequence of the study would be that within this present research framework, organizational volunteerism is a more modern and effective tool of community participation and local development for three reasons. First, it fosters better regularity of the activity. Second, organizations as intermediary tools to volunteer are chosen exactly by those with higher social status. Third, formal volunteers are moved by new or instrumental motivations which could activate masses of people not only in 2004 but in present times too.

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## INTERNET SOURCES

- 2011 be the European Year of Volunteering: [http://ec.europa.eu/citizenship/news/news820\\_en.htm](http://ec.europa.eu/citizenship/news/news820_en.htm)
- Website of the European Year of Volunteering: <http://www.eyv2011.eu>
- Website of the International Year of Volunteers: <http://europa.eu/volunteering/en/home2>

## NOTES

- 1 PhD candidate, Institute of Sociology and Social Policy; Corvinus University of Budapest, e-mail: [eva.perpek@uni-corvinus.hu](mailto:eva.perpek@uni-corvinus.hu)
- 2 [http://ec.europa.eu/citizenship/news/news820\\_en.htm](http://ec.europa.eu/citizenship/news/news820_en.htm), <http://www.eyv2011.eu>, <http://europa.eu/volunteering/en/home2>
- 3 Standard error of the estimate is low enough (1993: 1.625; 2004: 1.232) that means that accuracy of the estimate is satisfactory, and regression linear fits well. Standard error of regression coefficients is even smaller (1993: 0.035 and 0.054; 2004: 0.033 and 0.063). Adjusted coefficient of determination (adjusted  $R^2$ ) is unfortunately low in both cases (1993: 0.7%, 2004: 0.2%) such as explanatory force of independent variable is quite modest. This shows that informal or formal way of volunteerism by itself is not able to predict frequency of activity. In further analysis other explanatory variables need to be involved.
- 4 Present and previous research outcomes only partly can be compared in the sense that numerous results featured before concern voluntary activity itself, not formal or informal type of it. Thus, comparison of research findings should be handled with this limitation.

- 5 Sum of Exp(B) coefficients is not really correct statistically; it is used only to illustrate weight of indexes, summing up its elements.
- 6 Extraction method of the analysis is maximum likelihood; rotation method is Varimax with Kaiser Normalization (Kaiser 1958). Total variance explained exceeds 49%. Results of Kaiser-Meyer-Olkin (KMO=0,823) and Bartlett-test (Sign=0,000) point out that there is a latent structure behind the set of variables and the items are not independent. Unfortunately, goodness-of-fit test's chi-square is quite high and its significance level does not move from 0. This means that factors do not replace the original variables in an adequate way. Two possibilities to overcome the problem: increasing the number of factors; running explorative factor analysis on eighteen traditional, modern and neutral motivation items. Within this short paper there is no opportunity to continue the analysis.



## BIG BANG LOCALISM AND GYPSIES AND TRAVELLERS

### INTRODUCTION

Gypsies originally descended from India and arrived in the UK in the fifteenth century (Fraser, 1995). In the UK they prefer to be termed Gypsies, Romany Gypsies or Romanichel. Irish Travellers, like Gypsies, are classified as an ethnic group and have travelled and resided in the UK for centuries (Ryder and Greenfields, 2010). New Travellers are not an ethnic group but have taken up travelling traditions (Clark and Greenfields, 2006). The provision of Gypsy and Traveller sites (pitches where Gypsies and Travellers can station their caravans) is a major social policy challenge in the UK, which to date successive governments have failed to remedy.

One fifth of the caravan dwelling Gypsy and Traveller population in the UK do not have an authorized place to live, instead occupying unauthorized developments or encampments (Cemlyn et al, 2010). It has been estimated that only one square mile of land is needed to address the present shortfall of approximately 5000 pitches (EHRC, 2009). However, despite the relative small scale of the problem it has proven to be one of the biggest challenges facing local and national politicians, where a lack of political will in the face of localized opposition to site development has often stalled progress. This paper draws the conclusion that the localist policies being advocated by the UK Coalition Government hold the potential to exacerbate existing shortages and further strain community relations. To emphasize these dangers it is worth considering a statement by the Gypsy Council which gives an insight into what it describes as the “dark side of localism”:

*“Whenever proposals come up local residents and parish councils object vociferously. The levels of abuse and objection to development for our people are hard to understand but almost universal. Language and attitudes that have been unacceptable since the 1970s to black people, Jews and gays are commonplace in regard to Travellers, particularly when it is proposed that they*

*should live within a community. This is why the planning system is at the heart of the inequalities from which Travellers suffer. Councillors are put under huge local political pressures to oppose sites* “(The Gypsy Council, 2010).

The paper will explore how the planning system has impacted on Gypsies and Travellers and is partly based upon evidence and conclusions made by the Panel Review of Coalition Government Policy on Gypsies and Travellers. The Panel Review was organized by the Travellers Aid Trust and was funded by the Joseph Rowntree Charitable Trust. The author of this paper acted as the lead researcher to the Panel Review, where a panel of politicians from the main parties together with academic experts took evidence in the UK parliament over a two day period from a range of participants including:

- Gypsies and Travellers
- Local authorities and Parish Councils
- Service providers
- The police

The Panel Review adopted a deliberative approach by including a wide range of stakeholders, who have not always agreed or held common positions on this issue, in the hope of finding consensus and common agreement. It was hoped that the formation of a consensus might facilitate influence on the outcome of the Localism Bill progressing through parliament through the Panel Review report ‘A Big or Divided Society?’. A large number of the participants welcomed the extension of local democracy but expressed the view that for a sensitive and controversial issue like Traveller site provision that a form of central duty is needed to overcome local opposition. This paper sets out that case.

## THE CONTEXT

Following the 2010 election and the emergence of a hung parliament the Conservatives and Liberal Democrats formed a Coalition Government. A joint plan of governmental policy and action was set out in the document (The Coalition: our program for government, 2010). Of relevance to the planning framework and Gypsies and Travellers, the report states:

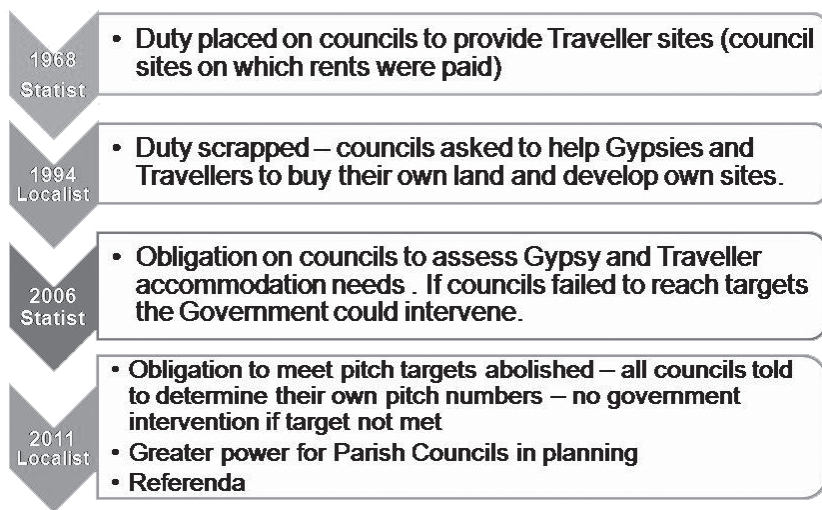
*“The Government believes that it is time for a fundamental shift of power from Westminster to people. We will promote decentralisation and democratic engagement, and we will end the era of top-down government by giving new powers to local councils, communities, neighbourhoods and individuals”* (Cabinet Office, 2010, 11).

In July 2010, Eric Pickles, the Secretary of State at the Department for Communities and Local Government (CLG), announced that he was using his power under section 79(6) of the Local Democracy, Economic Development and Construction Act 2009 to revoke Regional Strategies in order “*to put greater power in the hands of local people rather than regional bodies*” (Ryder et al, 2011). Traveller sites as well as housing had formed part of the Regional Strategy targets; the abolition of these could thus have a major impact on site provision.

## BIG BANG LOCALISM AND BEFORE

There are differing interpretations of what ‘localism’ is but one adherent of localism has described the brand as espoused by a section of Conservatives as ‘big bang localism’ (Jenkins, 2004). A dogma of radical decentralization which some would argue has permeated the Coalition Government. As will be evidenced, the Coalition’s localist policies could have a profound effect on Gypsy and Traveller site provision and race relations. However, localism is not a new phenomenon; it is a policy which has been applied to Gypsy and Traveller site provision in the past and has alternated with more centralized measures which could be described as ‘statist’.

*Figure One – Localist and Statist Approaches to Gypsies and Travellers*



A purely localist approach existed prior to 1968 as no central policy existed on site provision apart from measures which placed greater restrictions on where Gypsies and Travellers could reside and locate sites. Thus it was very

much up to local authorities whether they chose to help support Traveller site development, and many chose not to (Hawes and Perez, 1996). Consequently, there was a growing shortage of sites and stopping places leading to an increasing number of unauthorized encampments and a corresponding strain in relations between Gypsies and Travellers and the settled communities in housing. The Labour MP Norman Dodds had argued for some form of central directive on site provision since the 1950s but had largely been ignored but by the late 1960s the Labour Government concluded that such a measure combined with enforcement measures might be the solution to growing community tensions (Acton, 1974). The Government indicated to the Liberal MP Eric Lubbock that it would support his proposal for such a duty which he hoped to steer through parliament as a private members' bill. The resulting piece of legislation (the 1968 Caravan Sites Act) placed a duty on certain local authorities to provide sites and by the date of its abolition in 1994 had created a network of 350 sites which were largely council-owned and managed and on which residents paid rents (Richardson and Ryder, 2009).

One of the factors that contributed to this expansion of site provision was that there was political consensus in the 1970s and 80s on the need for a statutory duty on councils to provide sites which meant there was governmental consistency which ensured the policy was not derailed through rapid policy changes every time there was a change of government. Although the Act had created a relatively large number of sites, in fact many more than later measures were to deliver, the Act contained some of the traits of an over centralized statist policy in the sense that it took little account of the aspirations of Gypsies and Travellers and how and where they wanted to live. Sites often occupied marginal space, being located near canals, rail lines, busy roads, industrial areas and even municipal rubbish dumps, in spaces where Gypsy and Traveller settlements were unlikely to provoke opposition from the settled community (Clark and Greenfields, 2006). Furthermore, sites were governed by what residents deemed to be authoritarian management regimes where they did not enjoy the same rights concerning tenure as other residents of social housing, which led to some Gypsies and Travellers referring to these sites as 'reservations' (Johnson et al, 2010).

In 1994 the duty to provide sites was abolished and in its place Department of the Environment Circular 1/94 was introduced in which local authorities were encouraged, but not obliged, to assist Gypsies and Travellers to develop sites and endorsed the private provision of sites by Gypsies and Travellers themselves. However in this very localist approach many councils chose not to support planned site provision and the number of unauthorized encampments continued

to grow as did tensions in community relations. The Labour Government concluded that Circular 1/94 was not addressing the growing shortage of Gypsy and Traveller sites. In 2003 the Labour Government initiated a policy review on Gypsy and Traveller site provision which culminated in the Office of the Deputy Prime Minister (ODPM) Circular 1/2006. This placed an obligation on local authorities to carry out a Gypsy Traveller Accommodation Needs Assessment (GTAA) which would identify the need for sites and feed into regional targets set by Regional Spatial Strategies (now known as Regional Strategies following the Local Democracy, Economic Development and Construction Act 2009). Where local authorities failed in their new responsibilities, the Secretary of State had powers of direction to make councils identify land for site development if they had failed to do so by the deadline set of 2011. Although containing a central and statist obligation to provide sites, this only came into action where at a local and regional level councils had failed to identify land for the requisite number of pitches allocated to them through the benchmarking of local assessments and allocation of a target (which sometimes involved an element of redistribution) by regional assemblies (Ryder et al, 2011). Hence, the policy could be described as a hybrid of local, regional and centralized approaches which placed a strong emphasis on consultation and which accorded Gypsies and Travellers (unlike the 1968 Act) some say as to the location and design of sites (CLG, 2007).

In the two years prior to the introduction of Circular 01/2006, 68% of appeals relating to Gypsy and Traveller sites were dismissed. In the following two years, 65% of appeals were granted planning permission (CLG, 2009, 4). Despite some modest progress it has been estimated that at that rate of pitch provision it would take local authorities 18 years to meet the targets specified in relation to permanent pitch requirements set for a 5 year period (Brown and Niner, 2009). The secretary of State, Eric Pickles, has seized upon this fact as a sign that the policy was failing (CLG, 6th July 2010). However, it should be noted that the success of the policy was skewed by the approaching general election; with some councils aware that if the Conservatives won then the policy would be scrapped, it appears they decided to drag their feet on site delivery (Richardson and Ryder, 2009). In fact, Pickles whilst in opposition had encouraged such a process by calling upon Conservative Councils not to comply with New Labour Government directives which fell under his categorization of “*nanny state, politically correct or vanity projects.*” (The Guardian, 2nd July, 2009).

Pickles also argued that the policy created perceptions of ‘unfairness’ by the general public concerning the outcomes of planning cases by Gypsies and Travellers. A CLG press release (13th April, 2011) said: “... *the old planning rules*

*created a perception of special treatment for some groups, undermining the notion of fair play in the planning system and further harming community cohesion.”*

However, research by Panel Review member Dr Jo Richardson into planning appeals before and after the introduction of Circular 1/2006 has noted that the percentage of cases allowed prior to Circular 1/2006 was 40%, rising to a peak of 70% during the established phase of implementation of Circular 1/2006) but that there has been a reduction in the number of appeals allowed since the Secretary of State’s announcement on the replacement of the Circular and the revocation of RSs (Richardson, 2011, 8). Richardson notes that there was a perception prior to Circular 1/2006 that Gypsies and Travellers were disadvantaged in the planning system and that, proportionately, more applications for Traveller sites were refused than there were refusals for bricks and mortar planning applications in the wider community. There was hope that Circular 1/2006 would redress the balance and give a more even footing to applications for sites (Richardson, 2011, 8). In this sense Circular 1/2006 can be seen as a tool which levelled inequality in the planning system rather than one that created ‘unfairness’ and one which acted as a tool of ‘positive action’ which has generally been accepted by the main political parties and the European Union as a legitimate tool to address inequality (European Union, 2009). It is of concern though that the new planning statement is being driven by what are, in fact, unfounded perceptions of unfairness. Previous research has demonstrated that clear and informed public perceptions together with firm and fair leadership and reporting are key factors in ensuring support for site delivery (Richardson, 2006; 2007). The real test of the regional strategies propounded by Labour would have come into play in 2011 when councils were due to reach the deadline set for identifying land and at which point the government could have intervened, but as has been noted, the policy was repealed before the deadline was reached.

The Localism Bill which at the time of writing is progressing through parliament is expected to become law in the later part of 2011. The policy will abolish Regional Strategies and targets for homes (including housing and Traveller sites) and give parish councils (council bodies based on small geographic areas such as villages) and neighbourhood forums a greater say in the planning process. Local communities will also be given the power to trigger local referenda on issues and decisions by councils that they are concerned about. The fear has been expressed that these powers could present a ‘nimby’ (not in my back yard) charter which will frustrate and block developments which do not meet with popular support, Gypsy and Traveller site provision is likely to be prominent amongst projects that will attract strong opposition in which opponents can take advantage of localist

measures to frustrate such development (Ryder et al, 2011). Although local authorities are being encouraged to continue to assess local Gypsy and Traveller needs, that process is not to be prescriptive and unlike the previous policy will not contain benchmarking by regional assemblies to correct assessments which have under-estimated need. Steve Staines of the Traveller Law Reform Project reported to the Panel Review that a survey of 34 councils (excluding London) indicated a pitch loss of 360 when compared to the targets that had previously been set by Regional Assemblies. Where councils were proceeding with some site development it was overwhelmingly based on figures established by their own Gypsy and Traveller Accommodation Needs Assessments (GTAA) which in many cases identified lower levels of need than that set by regional assemblies (Ryder et al, 2011). Furthermore where councils do not achieve the targets which they can set for themselves, under a localist agenda there will be no prospect of government intervention.

A number of participants in the Panel Review felt that site provision as with affordable housing had come to a virtual standstill. Sections of the building industry have already expressed concern at this situation. At the CLG Select Committee inquiry into the abolition of Regional Strategies, David Orr, chief executive of the National Housing Federation (which represents housing associations) said the decision to get rid of the targets was *“a hasty and damaging move, which has already seen plans for over 180,000 homes scrapped”* (BBC News, 10, 11, 2010). This could be attributed to the lack of detailed policy proposals in the present policy vacuum whilst the new planning circular is being developed and legislation passed through parliament. However, the reluctance of many councils to act on the issue of site provision is a key factor in development coming to a standstill. In a survey of the East, South East and South West of England, the Irish Traveller Movement in Britain (ITMB) found a significant drop in planned site provision when compared to targets set under the previous regional strategy.

The ITMB study focused on three regions in England and had returns from 100 of the 152 local authorities (66%). The response rate varied: 91% in the East of England, 68% in the South West and 47% in the South East. The now abolished Regional Strategies had allocated pitch targets to every local authority; the study found that 63 (63%) of the 100 local authorities who responded had targets for additional residential pitches, while 37 (37%) did not. 74% of East of England councils had residential pitch targets, 80% in the South West, but only 34% in the South East. This constitutes a drop of 52 per cent in councils' targets for additional residential pitches from the 2,919 that had been identified as needed under the previous policy. Only one (1%) of the authorities contacted saw the

Localism and Decentralization Bill as likely to make planning for Gypsies and Travellers easier while 40 (40%) expected it to make it more difficult. 13 (13%) thought it would make no difference, 25 (25%) weren't sure and 15 (15%) said they weren't sure but made comments indicating it would be more difficult. 40% of respondents expressed concerns about increased local opposition to development for Travellers under the localist planning regime (ITMB, 2011).

The Coalition Government believes that the New Homes Bonus once introduced will reward local authorities that deliver housing as well as public and private Traveller sites. Councils will receive council tax matching funding for six years. New local authority pitches will attract additional money in the same way as affordable housing. Rather than meeting targets, the Government argues that local authorities will instead have real incentives to provide Traveller sites and communities will see the benefits of development (Ryder et al, 2011). However, there is a strong fear that this plan to incentivize construction will not overcome what will be intense opposition to site construction (Ryder et al, 2011). Roy Donson, Regional Planning & Strategic Land Director, Barratt Developments Plc has said of the New Homes Bonus:

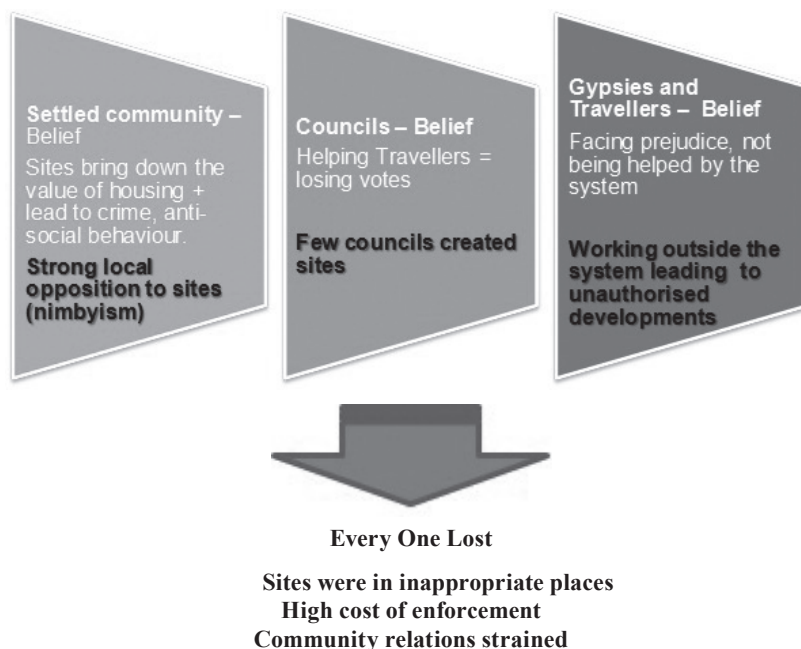
*“That is a completely novel approach, and we cannot put our hands on our hearts and be certain it works. I am absolutely certain in my own mind that Ministers are sincere about their desire for more housing and that they believe the New Homes Bonus-type structure will work, but it is quite a high-risk strategy because nothing like that has ever been tried before. I think there must be a plan B, and probably that plan is that if the New Homes Bonus as currently outlined - we do not have much detail on it at the moment - does not do the trick something must be added to it to make it work and we must keep at it until it does”*(CLG uncorrected oral evidence, 8th November, 2010).

An in depth analysis of how a localist agenda failed to deliver sufficient new sites in 1994 may give important indications as to why the Coalition Government's localist policies may inevitably fail.



## LOCALISM IN FOCUS

*Figure Two – How Commonly Held Beliefs stalled Site Provision  
Post Circular 1/94 and Contributed to Community Tensions*



During the late 1980s and early 1990s a public furore developed over a group known as New Travellers, a non ethnic group which took up a nomadic lifestyle which grew out of the festival movement (Clark and Greenfields, 2006). This led to a public furore, often fuelled by an intemperate media, in which New Travellers became 'folk devils' (Richardson, 2006). This resentment crystallized into the decision by the Conservative Government of John Major to restrict unauthorized (i.e. roadside) encampments in the Criminal Justice and Public Order Act of 1994 but also to repeal the duty on local authorities to provide sites and in effect privatize site provision through Planning Circular 1/94 (See above). Action which much to the chagrin of ethnic Gypsies and Travellers fell upon the entirety of the Gypsy and Traveller community (Hawes and Perez, 1996).

In order to reveal the pitfalls of a localist approach in terms of increasing site provision and contributing to community cohesion the paper will look in depth at the localism policy which was introduced through Planning Circular 1/94. The lack of compulsion meant few local authorities initiated serious measures

to provide sites. Instead, prejudice and fears, mainly articulated through public opposition, made many councils reluctant to help (Richardson, 2007). Councillors were often fearful that support for sites would lead to local electorates punishing them at the ballot box; those who were to some degree sympathetic bemoaned the fact that they were not being compelled to act by a statutory duty as this enabled them to direct the blame at central government and declare they had no choice. Another impediment to local authorities being proactive in increasing site provision was the fear of the 'honeypot' effect, a belief that if they acted and neighbouring local authorities did not then their authority would attract larger numbers of Gypsies and Travellers who would become an accommodation and service 'burden' (ODPM, 2004). Clearly such fears are more pronounced under a localist planning regime as opposed to one where all authorities are compelled to act in unison.

In rare cases where councils did act or where Travellers decided to initiate an unauthorized development (going outside of the planning system by moving onto land and then submitting a retrospective planning application) opposition could be vociferous. Local residents' would invariably form action groups and large public meetings would be held – one such meeting in Crawley attracted 1000 opponents (Richardson and Ryder, 2009). The language and behaviour of such campaigning was highly derogatory and in some cases statements made by the public impinged race relations codes and left a spirit of disharmony and ill will to Gypsies and Travellers which percolated into every aspect of local community life, including schools, and left a legacy of mutual fear and mistrust which lasted for years (Richardson, 2007).

The localist policy of Planning Circular 1/94 left many Gypsies and Travellers feeling that the planning system and local authorities were set against them. The growing shortage of local authority sites following the repeal of the duty, combined with a lack of support from local authorities and trust in them to be fair inevitably led to stark choices for many Gypsies and Travellers. They could either live on the side of the road and be subject to a constant cycle of eviction which was facilitated by new enforcement powers in the Criminal Justice and Public Order Act 1994, or move into housing and face the risk of assimilation (Ryder and Greenfields, 2010). A third choice was to buy land and move on to it and over a period of a few days develop a site and then retrospectively hand in a planning application to the local authority (Richardson 2007). However, such a path was fraught with difficulty. To gain permission to reside on their land Gypsy and Traveller families would need to defend their application in quasi legal planning hearings and even high court actions, while often these applications were bitterly resisted by local

authorities and residents. For a minority group often characterized by low levels of formal education such litigation was often highly traumatic to families and also costly, running up large legal bills and being a distraction from economic activities (Ryder and Greenfields, 2010).

For some Gypsies and Travellers their gamble with the planning system ultimately failed and in some cases led to the forcible eviction and demolition of Gypsy and Traveller sites by private bailiff firms contracted by local authorities, scenes which received scant media attention but which were highly emotive for Gypsies and Travellers. The UK Association of Gypsy Women (2009) articulates concerns about forced eviction: *“Over the years, heavy machinery has been deployed with no duty of care to the children, sick or elderly on the sites and on occasions the elderly and the sick have been beaten and manhandled as they are evicted. Homes have been destroyed and sometimes, with families still inside. Bailiffs violate health and safety policies of the UK without fear of prosecution”*. The Committee for the Elimination of Racial Discrimination in its fourth periodic report on the UK expressed concern about the levels of enforcement and forced eviction used against Traveller sites (ECRI, 2010). Media attention instead, largely through the tabloid press, has depicted families living on unauthorized developments as lawbreakers flouting the planning system; sensationalist reporting which culminated in the Sun Newspaper articles entitled ‘Stamp on the Camps’ which led to Gypsies and Travellers becoming an election issue in the 2005 General Election where opposition Conservative leader Michael Howard unveiled a 7 Point Charter on Gypsies and Travellers which focused on enforcement with no reference to provision and called upon Travellers to ‘play by the rules’ in the British tradition of ‘fairness’ (Richardson and Ryder, 2009).

The cost to local authorities and the wider community was also great. In 2002 the cost of eviction and enforcement was estimated to be 18 million pounds per annum (Clements and Morris, 2002), a cost which may escalate given that one large eviction at the Dale Farm Site in Essex will cost the local authority an estimated 10 million pounds, or 117,000 pounds per family to be evicted (BBC, 11th July, 2011). Localism was also costly to the settled community by the inconvenience caused by unauthorized sites being placed in inappropriate locations, sometimes in locations which could impact negatively on house prices, though such price declines were often a result of publicity and residents in effect talking down their own house prices by voicing their fears about the consequences of a nearby Traveller site development. Hence, it is evident that a wide range of stakeholders including Gypsies and Travellers, the wider community and local authorities suffered to varying degrees under a localist policy. There is a fear that

the Coalition Government's localist policies will lead to a return to the failures of localist policies that were established in 1994 (Ryder et al, 2011).

## WIN-WIN SITUATIONS

A long-standing view of campaigners for Traveller law reform is that the drawbacks as outlined above of a localist planning regime for a vulnerable minority can be mitigated through some form of central government intervention. Such a concept has often been supported through the 'win-win' potential of providing more sites. The Gypsy campaigner Len Smith stated that *"More sites for Gypsies and Travellers is a win-win situation, not only does it give Gypsies and Travellers a decent home and access to services but it reduces the inconvenience of unauthorized sites for the settled community"* (Cited in Ryder et al, 2011). To emphasize this point campaigners placed great store in building up a broad alliance for the return of an obligation to provide sites, which included local authorities and politicians from the main parties and residents affected by unauthorized encampments. This lobbying was one factor which eventually prompted the New Labour Government to act through its regional policies but it could be argued that it failed to convincingly take these arguments to the wider public, hence creating a state of affairs where the Coalition Government can effortlessly remove interventionist policies on this issue.

Increasing local democracy has many merits, but there are many interpretations and forms of localism. Coalition Government policy may merely empower a section of the community who already are vocal and active in community politics. Not just Gypsies and Travellers will be the potential losers under this form of localism, a sizeable minority that could be affected are those struggling to get 'affordable housing' (namely low cost home ownership or access to social housing). The privatization of council housing and the marketization of the construction industry as well as a housing bubble which has seen price inflation make home ownership unattainable for a large number of not just low but also middle income families are factors that have contributed to the housing shortage. However, another factor contributing to the shortage has been local authorities and residents, primarily in affluent areas who oppose provision of affordable housing. Opposition which stems from a desire to retain the existing class profile of an area or merely having no interest in affordable housing because of their own well positioned economic status. The New Homes Bonus (see above) may lack the strength to overcome this opposition. An alternative would be to have a duty on local authorities to provide affordable housing which would include Traveller

sites/social housing/low cost homes. The merit of this idea is that it could force the hand of reluctant councils. In the past, when campaigners called for the return of a duty to provide sites, opponents would turn around and say “But no such duty exists for housing for the settled community!”. Also at public meetings which opposed sites the point was raised that homeless Traveller families had been forced to initiate unauthorized developments, to which local people responded “But we have young couples in this area who cannot afford a home and they are in the same boat!”. A duty on affordable housing would overcome these arguments but also unite Gypsies and Travellers with the many people in the wider community who need somewhere to live and could create a powerful lobby and a clearer and more populist ‘win-win’ policy scenario. It could also be argued that such a large scale affordable housing program would create a stimulus to the construction industry and economy. However, such an idea is unlikely to gain favour in the present political climate in which localism is in vogue with the present government. A prerequisite for change is a realization by the general public that state intervention can be for the greater good and that equality warrants checks and balances in local democracy, which may lead to a state of affairs where a duty to provide affordable housing is one day popularly embraced.

## CONCLUSION

The Coalition Government has embraced localism with a fervour which has led to the Government labelling these reforms ‘revolutionary’ (CLG, 10th December, 2010). Such localism is not out of character with the political make-up of the right, given the coupling of localism with a process of marketization which will see services put out to tender and strategic decision-making undermined and potentially vetoed, hence localism appeals to ‘rightist’ notions of individualism, the free market and laissez faire social policy and a belief that these reforms will be cost cutting, an attractive proposition in an age of deficit reduction. The vacuums that are left are to be filled by forms of nineteenth century philanthropism and volunteerism and welfare strategies based on business models which constitute the ‘Big Society’, or what could equally be termed the ‘small state’. The conclusions drawn in this paper are that Gypsies and Travellers could be further marginalized in this policy framework.

Gypsies and Travellers are ‘insular minorities’, being systematically disadvantaged and having little bargaining power (Rostas and Ryder, 2012). The fundamental weakness and moral flaw of localism is that the weak and vulnerable in society will be left in some cases to the mercy of local majorities that have little

care or regard for unpopular or politically weak minorities or interests. Hence, alongside opposition to Traveller sites, some communities will choose to oppose wind farms, care homes, affordable housing and so forth for a number of 'nimbyist' and self interested or prejudicial reasons. This scenario, which reflects the notion that the views of the majority in a local area should always be of ultimate import, can be questioned on the grounds that it can conflict with the interests of the 'greater good'. A principle which is accepted by many when applied to transport, energy and environmental protection (Parvin, 2011) but not so readily when applied to minority interests, in particular the needs of Gypsies and Travellers. Here local majorities or majorities stirred up by small oligarchies and chorus leaders of parochialism can form a tyranny and driven by prejudices can deny a minority fundamental rights such as a decent place to live and access to services (Fung, 2002). This is a fear noted by the Communities and Local Government Select Committee inquiry into localism *"A range of organisations representing the interests of vulnerable, marginalised or minority groups expressed fears that a decentralised system in which 'bureaucratic accountability' mechanisms had been dismantled would leave services for such groups at the mercy of the vagaries of local politics and funding choices made under the pressure of cuts"* (CLG, 2011 point 59). There is therefore the potential for illiberal actions in localism if one accepts that an important part of the liberal tradition is the protection of minority rights. As Parvin notes:

*"...the centralisation of decision making power also fulfills another function of liberal democratic political systems – namely the protection of minority groups from the tyranny of the majority.....liberal democratic principles may not always be best served by devolving decision making power down to local communities because it is entirely possible that local communities might use this power to enact policies or initiatives that violate liberal principles and make the lives of certain members worse"* (Parvin, 2009).

It was to avoid and break the log jam of nimbyist opposition to strategic projects that notions of civic leadership have been accepted in the past, where councillors for example were prepared to face and oppose the views of the majority in the interests of a greater good. In the case of Gypsies and Travellers that has been to achieve a reduction in enforcement costs and better life chances for a vulnerable minority. In one parliamentary debate one MP captured the motivation of such civic leadership in the past:

*"I can remember as a child that my father, who was then a senior councillor on Havering council, sought to resolve the deep unhappiness that unregulated*

*and illegal Traveller sites caused in that area. He took the view that it was important to find sites that could be properly managed and where the Gypsy and Traveller families were better able to access education for their children, health care and advice on what were and were not acceptable actions when living in the locality. That was an enlightened view at the time, but we are now some 40 years down the line, and successive Governments have failed to provide a solution that works for the settled communities, who face unacceptable levels of illegal and unauthorised sites. It also fails to deal with the needs of travelling communities and Gypsies“.* (Alison Seabeck MP ,7 Dec 2010: Hansard Column 15WH).

Firm and strong civic leadership, not afraid to challenge prejudice or take seemingly unpopular decisions for the greater good has been recognized as a key component in Traveller site delivery (Richardson, 2006). However, in many cases, past and present civic leadership has buckled and backtracked in the face of strong local opposition to sites. Hence, although strong and central safeguards are needed to deliver equality they can only be guaranteed if a process of public persuasion and education can also take place in tandem. The regional strategies attempted this by placing a strong emphasis on dialogue and consultation in site delivery and some notable converts were made in particular at councillor level but this dialogue often failed to percolate down to and inform communities at a grassroots level (Ryder et al, 2011). Such a process may be a long term proposition involving more positive images of this minority in the media and curriculum but also for Gypsies and Travellers to be known and to be accepted in communities. This can be a long process, as is evidenced by the experiences of one Gypsy at the Panel Review of Coalition policy. After failing in his first attempt to secure a site through the planning system, Mr. Tom McCready initiated a planning application for the second time, retrospectively. Tom found that the council was initially strongly opposed to his application. Tom noted:

*“...that attitude relaxed when the attitude of the local people relaxed. And at the end of the third temporary permission I went and applied again for a permanent permission and there was one person protesting who it turns out is a member of the British National Party.... And a lot of people supported me, a lot of people said we'd like Mr. McCready to stay. So now after 10 years, I got a permanent planning permission. I've got a lot of friends in the village, my children have received an education in the village, medical help, I'm paying the taxes, my children, two of them are working now and paying the taxes. So it's a success story. But at the cost of 10 years of mental anguish*

*to my wife and I. If I had not been able to make a retrospective application, had the inspector not been able to say you have a duty towards this family, that wouldn't have happened, and it would have been an entirely different story" (Ryder, et al, 2011, 25).*

However, as indicated by this statement such persuasion and mind changing processes cannot take place in the short term or even before a site is built. In some cases civic leadership may have to force through site development measures in the courageous hope and belief that they are doing the right and humane thing and that with time local populations will accept such need (Richardson, 2007). Part of this process involves accepting elements of positive action but also human rights principles. Where special mechanisms exist on site delivery these should not be viewed as unfair advantages but instead as a form of 'positive action' which is enabling Gypsies and Travellers to catch up, and for the huge inequality of underprovision of sites to be addressed (Richardson, 2011). Such mechanisms should be viewed as part of a minority rights framework where the state recognizes that for minorities to receive protection and equality then special frameworks can be warranted and counted as part of a liberal tradition that values group rights as well as those of the individual and which for proponents of minority rights can entail policies to combat racism and discrimination which can incorporate positive or affirmative action (Kymlicka1995). A model that avoids the pitfalls of the oligarchies and tyrannies of localism and centralism may be contained in 'Empowered Participatory Governance' which is both 'bottom up' and 'top down'; through which decentralization can create public buy-in and support and tailoring of policy to meet local needs and circumstances and be informed by expert local knowledge but be combined with a form of centralism which checks parochialism and inequity and ensures marginalized groups' needs and aspirations are taken account of (Fung and Wright, 2001). Empowered Participatory Governance is a model that could be successfully applied to social policy for Gypsy Roma Traveller communities and in a wider context at both a national and European level with those who are the focus of policy being given effective involvement in design and delivery of services and policies that affect their lives.

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## **Parliamentary Debates and Hearings**

(Alison Seabeck MP ,7 Dec 2010 : Hansard Column 15WH)

UNCORRECTED TRANSCRIPT OF ORAL EVIDENCE

To be published as HC 517-iii

House of Commons Oral Evidence Taken Before the Communities and LocalGovernment Committee Abolition of Regional Spatial Strategies  
Monday 8 November 2010 - Roy Donson

## **NOTES**

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## ASSESSING THE CO-OPERATION WILLINGNESS AND ABILITY WITHIN HUNGARIAN SMALL BUSINESS NETWORKS AND CLUSTERS

### JUSTIFICATION AND AIMS OF THE RESEARCH

*Justification of the research topic.* Inter-firm co-operation and competition are not antagonistic to each other, rather co-operation is just as an important ingredient of competitiveness as competition. On the global, national and local markets not only individual firms compete with each other; frequently it is the competitiveness of entire networks that decides the outcome of business decisions.<sup>3</sup> International and Hungarian experiences have shown that the co-operation of firms is rooted not only in tangible and transparent advantages that can be easily analysed by rational profit-maximising logic. Increasingly, inter-firm linkages are also based on company attitudes and other intangible components of entrepreneurial culture such as trust and the ability and willingness to co-operate.<sup>4</sup>

*Substantive aims.* The present research is aimed at the description of those tangible and intangible factors that determines the strength and stability of inter-firm networks and clusters in Hungary and contributes to competitiveness at the company level, at the level of networks and indirectly at the local and regional level. The findings will be used to evaluate the Hungarian policy of supporting entrepreneurial networks and clusters.

*Methodological aims.* The aim of this paper is to present a correct and feasible methodology for the investigation of the above issues, which relies on theoretical findings of network research<sup>5</sup> and at the same time takes into consideration the specificities of the Hungarian landscape of entrepreneurial networks and clusters. The various components of the research design are planned according to the standard methodological principles of social inquiry.<sup>6</sup>

### EMPIRICAL EVIDENCE ABOUT INTER-FIRM LINKAGES IN HUNGARY

Since the mid 1990s the conditions of co-operative behaviour of companies, the culture of inter-firm co-operation, more generally the institutional framework

of inter-organizational co-operation was the subject of a wide range of research efforts in Hungary.

## RESEARCH ON STRATEGIC ALLIANCES

*A questionnaire based survey on inter-firm strategic alliances of Hungarian companies*<sup>7</sup> was launched in 1996 by the Budapest University of Economics and Public Administration.<sup>8</sup> The interviewers collected the responses of 325 firms. The sample consisted of a representative mix of smaller, medium sized and bigger firms, both from the state owned and private sector, including Hungarian and foreign owned companies. A selection of some of the results are listed below:

- Approximately one-third of the companies maintained long term relations with other firms, frequently with more than one strategic partner.
- State owned companies were developing typically horizontal alliances, while private companies have typically nurtured vertical (e.g. subcontracting) alliances along the value chain.
- In existing strategic alliances between foreign and Hungarian owned companies the foreign company was typically in the dominant position
- Strategic alliances between companies with identical or overlapping owners were observed in only one-sixth of the cases of alliances, but almost all of these so-called “equity-based alliances” have claimed to implement some kind of joint innovation activity.

## SURVEY ON SMALL BUSINESS NETWORKS

*A questionnaire-based survey*<sup>9</sup> *on small business entrepreneurial networks* in 2005 has shown that more than half of Hungarian small businesses were involved in some regular informal inter-firm co-operation, and that more than a quarter of Hungarian small businesses were involved in some formalised inter-firm co-operation. In particular, medium sized companies claimed to be more frequently members of some inter-firm co-operation than smaller and micro companies. Companies selling their products to other firms or to public bodies, and exporting companies were more frequently parts of some inter-firm co-operation than companies selling only for the local population. Companies that were members of a network were more optimistic and more growth oriented than non-member (“atomised”) companies.

In spite of widespread complaints stating that the co-operation culture of Hungarian companies lags behind European standards due to a low level of trust

in the inter-firm domain, the 2005 survey delivered ample evidence that the number and variety of business networks is increasing. Inter-firm co-operation appeared in various forms, such as

- Outsourcing – subcontracting
- Franchising
- Regional and / or sectoral clustering
- Joint ownership, co-ownership, holdings and other formations based on diversification-oriented investment strategies and “serial entrepreneurship” behaviour of groups of businessmen.

The content or agenda of inter-firm co-operation is based on various forms of exchange such as

- Regularly buying products and services from each other
- Inter-firm bartering
- Exchange of information, provision of consultancy
- Exchange of tools and machines
- Providing occasional credits to each other
- Referring clients to each other
- Co-operation in purchasing from third parties
- Co-operation in sales to third parties
- Joint development of new products / technologies / services

All of the above co-operation activities may appear both in:

- a contractually formalised form
- and / or can be made under informal agreements, e.g. as a regular exchange of favours.

## **MEASURING THE SPATIAL-INDUSTRIAL AGGLOMERATIONS OF FIRMS**

A series of research projects<sup>10</sup> in 2008 to 2010 has tackled the issue of communication, knowledge transfer, and cooperative actions among Hungarian companies. The authors have clearly distinguished between vertical and horizontal types of co-operation, the former identified as becoming part of global value chains as regular suppliers, the latter interpreted as cooperation of predominantly small companies in industrial clusters in order to compete with larger multinational companies.

One of the main objectives was to identify, map and evaluate the Hungarian clusters with the help of company census data. The research used the “wide”, “sectoral” concept of clusters, i.e. a group of companies engaged in similar

activities located in close proximity to each other. In this approach two companies may be classified as belonging to the same cluster, without any existing co-operation. This approach is opposed to the “narrow” definition of clusters.<sup>11</sup> Based on international experiences it was hypothesized that cooperation of Hungarian companies relies heavily on close, regular contact and face-to-face interaction, that significant synergies stem from co-location of cooperating market actors and that therefore the spatial concentration of actors, the geographic agglomeration of industrial activity in the same branch can improve the chances for success, i.e. improved competitiveness. The geographic mapping of these “widely” conceived clusters was based on annual census-type data of Hungarian firms, compiled from financial statements associated with tax reporting. The geographic density of firms of the same sector was measured with the help of Gini coefficients by using employment data disaggregated into the 20 spatial administrative units of Hungary and 37 branches (sectors) of the industry. The study has identified 48 industrial clusters in Hungary and statistically evaluated their size, level of specification, innovativeness and export activity. Strong clusters were found in the automotive, food processing and information technology sectors.

## EVALUATIONS OF CLUSTER SUPPORT MEASURES

*An interview-based survey on cluster development.* In 2003 the Hungarian Ministry of Economy and Transport launched an empirical survey among Hungarian regional clusters and business networks.<sup>12</sup> The aim of the research was to assess the impacts of a Government sponsored subsidy programme called “Széchenyi Plan” of 2001 which among other entities has supported regional clusters as well. The research used the “narrow” definition of clusters, according to which a group of companies and other organisations is a cluster if they have entered and to some extent formalized their co-operation which is aimed at enhancing their joint competitiveness. Moreover, in this approach only those groups are considered which explicitly identify themselves explicitly as clusters.

The research produced 20 case studies: assessments of the performance of existing entrepreneurial networks. The study was based on interviews with cluster managers, with local, central government institutions and trade associations which have played an instrumental role in developing clusters. Regional clusters were defined as networks of co-operating companies, SME-support institutions, local governments, trade associations and technology transfer institutions such as University departments or technology consulting firms. In most cases clusters were project organisations with no legal identity. Their activities consisted of



training, transfer of know-how in order to become subcontractors, joint quality management, spreading information on European Union standards, product family marketing, regional marketing, interest representation, organisation of conferences, joint participation on fairs, organisation of business meetings, preparation of application and tender documents for various subsidised programmes financed by the Hungarian Government and / or the European Union.

The clusters of 2003 were only weakly institutionalised, the cluster organisation possessed no legal status, therefore the clusters as such could not be parties of a contract. Most of them had a temporary character and have used the organisational framework of an existing company or enterprise support institution.<sup>13</sup> The functions of clusters have significantly overlapped with the activities of professional and trade organisations, chambers of commerce, industrial parks, incubator houses and SME and regional development organisations.

A loosely, vaguely defined cluster concept has contributed to the interchangeability of these organisational identities.

The 2003 research has found two basic types of clusters:

- *Vertical* clusters were based on the co-operation of companies belonging to the same industrial sector or sub-sector, related to each-other upstream or downstream. The dominant inter-firm relationships in vertical clusters were bridging ties between companies “along the value chain”, i.e. buyer-seller relationships between – subcontractors, integrator companies and assemblers – producers of the final product. Vertical clusters were observed in the automotive, electronic and the furniture industry.
- *Horizontal* clusters were based on the use of a particular regional resource such as a natural resource (e.g. thermal water), human resource (e.g. locally available craft skills). The dominant relationships of horizontal clusters were evolving by implementing projects facilitating joint market access, jointly introducing organisational innovations, or jointly hiring experts. Horizontal clusters were observed typically in the catering and touristic industry (thermal water utilization of a specific region), in the software industry and in regionally embedded handicraft industries.

*Comparison of the two cluster types.* In horizontal clusters the relationships between companies was less hierarchical than in vertical clusters, moreover the local organizing force was more dominant, i.e. a stronger sense of belonging to a settlement or micro-region was observed than in vertical clusters. Both vertical and horizontal types of clusters involved the co-operation of local business support organizations, financial and technology transfer organizations. Vertical networks

were stronger, more successful and more numerous, than the significance and occurrence of locally deeply embedded horizontal networks. While all clusters were first regionally defined, vertical clusters have shown a tendency to lose their regional character and strengthen their sectoral character by co-opting new cluster members from any region of the country. Vertical clusters were better channels of technology transfer than horizontal clusters; innovation activity referred rather to organisational innovation than product or technology innovation.

Although the 2003 study has revealed some weaknesses of the Government policy towards clusters, it has recommended intensifying the support of inter-firm networking rather than supporting individual firms, in order to avoid the proliferation of interventionist subsidy schemes.

A recent research effort<sup>14</sup> has investigated industrial clusters in Hungary and evaluated the so-called “Pólus Programme”, which was an ambitious support scheme of the Hungarian Government to facilitate the birth and development of industrial clusters. The authors have defined a life cycle of clusters, with milestones such as attracting founding member companies, creating a cluster organization, obtaining finance, offering services for members by the management, achieving financial sustainability through membership and service fees and achieving the so-called “critical mass” of firms which is necessary for the long term viability of co-operation. There is a wide body of evidence supporting the thesis that inter-firm trust is an intangible but necessary condition of long term co-operation, of network sustainability. The respective company attitudes can be improved, mistrust and “short-termist” attitudes can be reduced by well targeted efforts of the government and of the non-profit sector aimed at the improvement of entrepreneurial culture.

*The evolution of cluster support.* As early as in the 1990s the support of subcontracting networks was an important objective of Hungarian industrial policy.<sup>15</sup> After 2000 the respective subsidy schemes and business support services have widened their target group and the support of entrepreneurial networks and clusters started, first with an experimental character. During the years between 2003 and 2011 these programmes have been repeated and significantly improved. The support of Hungarian clusters relies on a scheme of accreditation: self-proclaimed clusters that apply for subsidies are evaluated by a designated body. The evaluation is based on a quantitative and qualitative criteria, e.g. level / extent / depth of cooperation within the cluster, prevalence of joint research/development/innovation projects, volume of services jointly purchased by cluster member companies, volume of jointly financed common marketing actions of cluster member companies, number, size and turnover of member companies and

the dynamics of the above indicators, etc. As a result, clusters are classified in four stages according to their level of development, ranging from “clusters in initial phase” through “developing clusters”, “accredited clusters” up to the so-called “innovation clusters”.<sup>16</sup>

## DESIGN OF THE PLANNED RESEARCH

### Research questions

The research questions are rooted in the theoretical results of professional and academic literature on entrepreneurial networks and clusters. Moreover, the questions investigated in previous empirical research efforts on the drivers of inter-firm co-operation and linkages re-appear in the present research design.

Questions directed at the description of inter-firm networking

- Which factors motivate or de-motivate inter-firm co-operation?
- What is the inter-dependence between (a) the structure of entrepreneurial networks and (b) the growth, competitiveness and sustainability of these networks?
- What are the major components of a culture of inter-firm co-operation in Hungary?
- What is the network structure of Hungarian clusters?

Policy oriented questions:

- Do subsidies have any impact on promoting a culture of cooperation?
- To what extent are existing clusters products of spontaneous market forces, and to what extent are they created by subsidies?
- Should the state support clustering?
- What are the best practices of supporting inter-firm networking?
- What are the advantages of supporting inter-firm networking as opposed to other forms of subsidies?

### Research hypotheses

The research hypotheses circle around the notion of strong and weak ties. Various statements hypothesising the factors determining the strength of inter-firm linkages shall be tested during the empirical work.

*Hypothesis 1: the benefits of strong & weak inter-firm ties.* The primary benefit of creating and maintaining strong inter-firm ties is that they provide the necessary social “embeddedness”; promote cooperation and facilitate the

exchange of various tangible and intangible resources. The maintenance of strong ties creates a culture of relational governance based on social attachments, trust, and norms. On the other hand, the primary benefit of weak ties is that they provide flexibility in company operations and firms can avoid a lock-in situation when adverse market conditions necessitate a re-structuring of the company strategy and organization (re-engineering). This hypothesis is based on the classical sociological publications of social embeddedness, social capital and network theory as applied for the inter-firm domain.<sup>17</sup>

*Hypothesis 2: When managing the portfolio of inter-firm relations in a particular company, the finite resources must be assigned to alternative, competing ties.* The portfolio of ties of a particular company with other firms (ego-network) is composed of stronger and weaker linkages. Over time certain ties will strengthen, while others will weaken. Managerial interventions may have a significant role in keeping up or phasing out certain inter-firm relations, e.g. subcontracting ties or innovation oriented strategic alliances. In absence of such interventions inter-firm ties have a tendency of spontaneous weakening which is called “churning”. The strengthening of some ties may affect the weakening of other ties, e.g. because the weakening of a strong tie is what frees the manager to access new, weak ties by assigning resources to these relations. Networks consisting of a mix of strong and weak ties have the greatest adaptive capacity. The source of this hypothesis is organisational theory, with special respect to the formal study of inter-firm networks.<sup>18</sup>

*Hypothesis 3: Network dynamics depends on the type and range of resource(s) being exchanged between co-operating firms and on the momentum of inter-firm relations.* The type of resource being exchanged between co-operating firms, (in other words the “agenda” of the inter-firm linkage) is defined by the fact whether on this linkage people, products, services, capital and / or knowledge are exchanged. The wider is the scope of resources exchanged, i.e. the scope of co-operation within inter-firm linkages, the easier is the further deepening of the co-operation by including new flows of exchange between the participating companies. This hypothesis was taken from certain findings of economic research on innovative clusters.<sup>19</sup>

*Hypothesis 4. Uncertain market conditions have a tendency to de-stabilise inter-firm network structure.* A major motivation of inter-firm co-operation in entrepreneurial networks is to reduce insecurity and risk resulting from demand fluctuation, technological uncertainty and regulatory instability. The volatility of demand and of technological uncertainty generates a volatility of network structure. In sectors where technological uncertainty is higher, the life span of

inter-firm ties is shorter, i.e. existing ties are being regularly replaced by new ones. Analogously, in epochs of higher volatility of demand, the life span of inter-firm ties is shorter. The source of this hypothesis is organisational theory, with special respect to the formal study of inter-firm networks.<sup>20</sup>

*Hypothesis 5: If a company has invested certain resources into creating and maintaining its inter-firm linkages, and these investments cannot be easily re-allocated, then the stability of the network increases but its flexibility decreases.* Planning and investment are necessary pre-conditions of developing inter-firm ties. Resources which can be re-allocated only at a high cost are called investments “with high asset specificity”. Such investments can easily result in a “lock-in situation”: in this case the company lacks the necessary flexibility to re-structure its tie portfolio. If the resource invested previously into inter-firm relations cannot be easily re-allocated to other purposes then stronger, rather than weaker ties characterize the network. The source of this hypothesis is identical with the source of the previous hypothesis.

*Hypothesis 6. Higher transparency of inter-firm linkages enables the management to easier re-structure the portfolio of inter-firm ties.* In other words, if it is difficult to measure the costs and benefits of inter-firm ties, this contributes to the prevalence of stronger, rather than weaker ties. The source of this hypothesis is identical with the above cited paper.

*Hypothesis 7. Networks built on the exchange and diffusion transparent, easily accessible knowledge tend to be weaker than networks facilitating the exchange of sophisticated, elite, highly professionalised information.* This hypothesis refers only to inter-firm ties where the major resource exchanged is knowledge (e.g. in innovation based clusters). The hypothesis is as follows: The transfer of tacit, complex, confidential knowledge requires strong social ties. On the other hand, weak ties are sufficient to the transfer of explicit, open knowledge which is easily accessible to a wide range of stakeholders (e.g. competitors). This hypothesis is based on historical observation and on the above cited paper.

*Hypothesis 8. In times of crisis it can be disadvantageous to be a member of a cluster.* Inter-firm networking and clustering helps firms to stay competitive in global competition under normal market conditions. However, this rule has the limits in terms of validity. In times of crisis the strengthened global competition weakens the benefits of being in a cluster, because existing strong ties cannot be flexibly replaced by other new inter-firm linkages. (Lock-in situation). The tendency underlying this hypothesis has been observed in various clusters.<sup>21</sup>

*Hypothesis 9: Equity-based, knowledge-based networks and networks based on subcontracting linkages are stronger and more sustainable than networks*

*based on the exchange of business services.* A major characteristic of networks is the nature of the resources exchanged between members. Inter-firm linkages can serve to exchange people, products, capital, services, and / or knowledge in the framework of the particular co-operation. The hypothesis goes as follows: Networks that facilitate the inter-firm flow of products, capital and knowledge are more sustainable than other networks in which only business services are exchanged. This hypothesis may help to explain why a few Hungarian clusters are sustainable and why most of them have a temporary character.

## Data collection

The methodology will use the instruments of qualitative social research. The empirical work will deliver a series of cluster case studies, all of which will be based in interviews and on document analysis.

- *Definition.* The “narrow” definition of clusters will be used, in the following sense: any co-operating group of companies and other organisations (e.g. research organisations) is a cluster, which is recognised by a designated body (i.e. by the body for cluster support and accreditation) as such.
- *Sampling.* A stratified sample of 8 clusters of the Region Central Hungary will be investigated, covering 4 sectors (IT, Business Services, Life Sciences, Environment).
- *Population.* The above sample is taken from the full population of 26 accredited clusters functioning in the above mentioned region in the Spring of 2011. These clusters are distributed among the following sectors / branches:

*The distribution of recognised clusters by sectors / branches<sup>22</sup> Central Hungary, 2011*

Health	3
Energy	1
Alimentary (food) industry	1
Construction	2
Wood and furniture	1
Informatics	6
Environment	3
Logistics	1
Plastic industry	1
Education	2
Tourism	1
Business services	4
Total	26

*Interviewing.* Two personal interviews will be made per cluster (with the cluster manager and with a member company). The interview outlines are determined by the above research questions and hypotheses.

*Desk research.* The interviews will be complemented by document analysis: cluster websites, documents on cluster subsidy scheme and on the cluster accreditation programme will be collected along with the analysis of newspaper articles on clusters. The aspects of documentary research are determined by the above research questions and hypotheses.

## Inference methods

The findings will be compared across sectors and individual clusters. The responses will be checked with the results of previous research findings and with available documents. Subsequently a cautious generalisation will be used for answering the above research questions and qualitatively testing the above series of research hypotheses.

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## NOTES

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- 3 See e.g. [Netwin 2007] , [Futó-Hurton 1998] , [Villa-Antonelli 2008].
- 4 See e.g. [OECD 2004] , [Wixted 2006]
- 5 See e.g. [Granovetter, M. 1985] and [Lazzarini-Zenger 2007].
- 6 See e.g. [King-Keohane-Verba 1996]
- 7 [Tari 1998] and [Buzády 2000]
- 8 The previous name of what is today Corvinus University Budapest
- 9 [Kohegyi 2005]
- 10 [Szanyi & others 2010]
- 11 For the definition of “narrow” interpretation of clusters see the description of the of the previous research project.
- 12 [Futó-Soltész-Lányi 2003]
- 13 According to our desk research, out of the 20 clusters and business networks surveyed in 2003, only 4 survived into 2011, all of the surviving clusters / networks being active in the manufacturing sector.
- 14 [Szanyi 2008a] [Szanyi 2008b]
- 15 See e.g. [Futó 1995], [Futó 1998]
- 16 See <http://www.polusprogram.eu>
- 17 e.g. [Granovetter, 1985]
- 18 e.g. : [Lazzarini-Zenger 2007]
- 19 e.g. [Wixted 2006].
- 20 e.g. : [Lazzarini-Zenger 2007].
- 21 e.g. by a survey on how Italian clusters cope with the global crisis, cited in [Economist 2011].
- 22 Source: <http://www.polusprogram.eu>



## **COMPENSATION FOR COMMUTING IN THE HUNGARIAN LABOR MARKET**

### **INTRODUCTION**

One of the unique features of the Hungarian labor market is the persistence of regional differences in economic prosperity and unemployment. Unemployment rates are substantially higher in the villages situated in the North-Eastern and the Southern part of Hungary, and the rate of unemployment has been persistently high since the early 1990s. Similar to the logic of the well-known spatial mismatch hypothesis, which claims that the suburbanization of job opportunities accounts for the high unemployment rate among black inner-city residents (Kain 1992, Ihlanfeldt and Sjoquist 1998), it was proposed that the high costs of daily commuting to urban labor markets accounts for the high unemployment rates in villages (Köllő, 1997, 2006; Kertesi, 2000). Using a transportation database with settlements as units of observation, Köllő (1997, 2006) showed that in the absence of public transportation linkages, commuting with cars would use up a substantial part of the expected wages. Public transportation links are especially underdeveloped in regions where villages with high unemployment rates are typically situated. He also estimated lower-bounds of travel expenses. Kertesi (2000) relied on these estimates when analyzing the 1996 micro-census of the Hungarian Statistical Office and found that the probability of commuting decreased with commuting costs.

In this paper, we make an attempt to estimate the compensating wage differential (Leigh 1986, Zax 1991) associated with costly commuting using individual-level data. The positive correlation between wages and commuting time is often explained with the help of search theory: prospective commuters are more critical towards low wage jobs, because the reservation wage is expected to increase in commuting distance or commuting time (Rouwendal 1999, Manning 2003b). However, standard urban economic theory offers another explanation in terms of residential choices. There is a trade-off between costs of commuting and costs of housing, and high-wage employees might prefer residential locations

which are far away from their job (Dargay and van Ommeren 2008), while low-income employees are forced to live close to their jobs. The relationship between commuting time and wages arises as a by-product of choosing the best residential location. The Hungarian labor market provides a unique opportunity to assess the explanatory power of the former approach. Labor mobility in Hungary is substantially constrained by the small housing rental market; the vast majority, more than 90 percent of houses are owner-occupied. Besides, housing transactions involve substantial transaction costs and a bad decision may put more than the annual income at risk (Hegedűs 1994). Moving is more characteristic for high-income families, which is evidenced in the suburbanization process especially around the capital city Budapest but also around other larger towns. (Budapest lost about 15 percent of its inhabitants during the 1990s). Given the difficulties associated with changing residence, we expect that people who wish to improve their labor market situation will choose commuting, especially those who are unemployed or often face the risk of unemployment, and mostly think of commuting as the means of improving their economic condition.

The paper is organized as follows. Section 2 presents a simple model of wage determination, which allows one to study the relationship between commuting distance and wages. The key hypothesis derived from the model is that the positive effect of commuting time on wages is conditional on unemployment rate at place of work. More specifically, the higher the unemployment rate, the larger are the returns for commuting. The remainder of the paper is devoted to empirical analyses. Section 3 describes the data and variables used in the subsequent sections. Section 4 begins with the examination of the relationship between commuting time, wages and reimbursement. Then we provide estimates for the returns for commuting time in terms of both wages and the probability of receiving reimbursement of travel expenses. Section 5 concludes.

## **THEORETICAL BACKGROUND AND HYPOTHESES**

### **The wage posting framework**

In recent years, research into the relationship between commuting and labor market outcomes has been increasingly influenced by modern theories of monopsonistic labor markets (Manning 2003a, 2003b; Rouwendal and van Ommeren 2007). This line of literature argues that commuting costs are an important source of monopsony power. Theories of monopsonistic behavior rely on wage posting models, which assume that wages are posted by employers before workers and

jobs meet and that the respective rates at which worker-job matches are formed and terminated are related to wages.

Wage posting models elaborate the simple idea that even high wages may maximize profit, provided high wages guarantee a steady flow of applicants and reduce the probability of job separations. Employers wish to set a wage which maximizes the expected profit associated with holding a vacancy. If vacancies were always filled immediately, the profit would be maximized by paying the lowest possible wage, since profit in this case is the difference between the productivity of the worker and the wage. However, vacancies are not always filled immediately because workers are to some extent selective. Obviously, low wages are rejected if unemployed workers can find better jobs. Therefore, when establishing the wage offer, employers take into account that low offers are likely to be rejected, which results in holding the vacancy for a long period of time.

The analysis of the optimal wage offer requires the specification of the probability with which job seekers accept a wage offer. We refer to this probability as acceptance probability throughout this paper. Since the acceptance probability reflects the desirability of the job offer, it is assumed to depend on the wage offer, the reservation income and the unemployment rate. First, the better the job offer, the higher is the acceptance probability. Second, independent of the wage offer, the acceptance probability is an increasing function of unemployment rate. That is, unemployed people are more likely to accept a job if unemployment is serious; and they become more selective as unemployment decreases. Even the minimum wage is acceptable, provided that the unemployment rate is sufficiently high. Finally, the acceptance probability depends on the reservation income: job seekers reject all wage offers which are below the income they can earn while being unemployed.

Under these assumptions, the profit maximizing wage depends on the productivity of the representative worker, denoted by  $y$ , the reservation income  $z$ , and the ratio of the number of vacancies to the number of unemployed job searchers, which is denoted by  $\theta$ . More specifically, the profit maximizing wage,  $w^*$  is the weighted sum of productivity and reservation income, and the weight attached to productivity is an increasing function of the ratio of the number of vacancies to the number of unemployed job searchers. Formally:

$$(1) \ w^* = (\theta y + z) / (1 + \theta).$$

The study of the compensating wage differential paid to commuters relies on the simple assumption that the reservation income depends on commuting distance. The starting point is the assumption that workers living at distance  $t$

evaluate jobs on the basis of the difference between wage  $w$  and commuting costs (Manning 2003b). That is,  $wt = w - ct$  where  $c$  captures both the monetary cost of travel and the monetary value of time associated with travel. It can be shown that distant jobs are evaluated as if the reservation income were an increasing function of commuting time, that is,  $zt = z + ct$ . In spatial labor markets, commuters behave as if their reservation income were the sum of the true reservation income and commuting costs. Thus, the profit maximizing wage in spatial labor markets is:

$$(2) w_t^* = (\theta y + z + ct) / (1 + \theta).$$

The implications are clear. The profit maximizing wage offer must be higher for commuters, since the optimal wage offer is a function of the reservation income. Since our model implies that the effect of reservation income on wages is conditional on unemployment, we hypothesize that returns for commuting are larger in labor markets where unemployment is high. Employers are willing to pay higher wages to commuters because they perceive the reservation income of commuters as the sum of the true reservation income and commuting costs. This is consistent with search theoretic models claiming that the reservation wage is an increasing function of commuting distance (Rouwendal 1999).

If employers were free and able to bargain wages on an individual basis, they would pay different wages to commuters and to local residents. The wage premium, denoted by  $\Delta w(t)$ , is simply the difference between the optimal wage offers and , the later denoting the optimal wage as defined by equation (2). That is:

$$(3) \Delta w(t) = ct / (1 + \theta).$$

If employers were free to set different wages to workers with different commuting time, the theoretical compensating wage premium would be observable in wages. However, employers rarely pay different wages to workers with similar productivity but different residential location. Employers often avoid intra-firm wage discrimination because wage differences, often perceived as “unfair” by employees put team performance at risk (see, for example, Akelof and Yellen 1986). Employers therefore aim at establishing a wage structure, which is relatively independent of the personal characteristics of the employed or prospective workers. Assuming that there are no systematic differences in the productivity of workers with different commuting time, employers cannot discriminate on a spatial basis. While employers are “spatially blind” during their decisions with respect to the wage structure, they might legitimately reimburse some of the travel expenses (Rouwendal and van Ommeren 2007). Indeed, employees of various European countries, including Hungary, receive explicit reimbursement of travel expenses, the extent of which being often stipulated in collective wage agreements or in

labor law. Our paper does not assume that such agreements and legal rules are binding. Instead, we argue that reimbursement equals the profit-maximizing compensating wage; that is, the theoretical compensating wage premium is paid in the form of explicit reimbursement. Similar to the argument developed in the previous paragraph, the effect of commuting distance on reimbursement must be larger in settings where unemployment is more pronounced. While employers should remain “spatially blind” during their decisions with respect to the wage structure, they can discriminate on a spatial basis and offer reimbursement to travel expenses. In short, the compensating wage premium, as defined by equation (3) is paid in the form of explicit reimbursement.

Whatever interpretation of equation (3) is adapted, the result is that returns for commuting depend on the ratio of the number of vacancies to the number of unemployed workers. Employers reimburse, either implicitly in the form of higher salaries or explicitly, the fixed fraction  $1/(1+\theta)$  of commuting costs. If the number of vacancies and the number of job seekers were the same, half of the travel expenses were reimbursed.<sup>2</sup> Travel expenses are fully reimbursed when there are no vacancies in the labor market. Contrary to this, employers are not willing to reimburse travel expenses if there is substantial labor shortage. The logic is as follows. Labor shortage induces firms to increase wages up to the point where wages equal productivity. The side effect of wage competition is that wages become independent of the reservation income. In the eyes of employers, commuting costs are a component of the reservation income, and not of productivity. If firms compete with offering better reimbursement schemes, it is because there is an excess supply of labor.

The negative effect of the improvement of labor market conditions on reimbursement can be illustrated by two additional results. First, keeping commuting time constant, the ratio of reimbursement to the wage becomes smaller as the relative number of vacancies increases. Second, employers are not willing to reimburse the costs of too long commutes. The largest commuting time eligible for reimbursement becomes shorter as the ratio of vacancies to unemployed workers increases. Thus the improved chances of earning high wages reduce the chances of receiving reimbursement for longer commutes. The surprising implication is that employers are more willing to reimburse travel expenses if the unemployment rate is higher.

## Empirical model

In this subsection, we elaborate the empirical implications of the wage posting model. To arrive at a tractable empirical model, we first propose a linear approximation of the fraction  $1/(1+\theta)$ , where  $\theta$  is the ratio of the number of vacancies to the number of unemployed. Since this fraction increases with unemployment at a decreasing rate, we use the approximation

$$\theta = \ln u_0 - \ln v,$$

where  $u_0$  is the number of unemployed at the place of work. Substituting this approximation into (2), we obtain

$$w_t = (\ln u_0 - \ln v)(z + ct - y) + y.$$

In our dataset, which will be described in the next section, there is no information about the number of vacancies in local labor markets and search costs. Therefore, our empirical model is

$$(4) \quad w_t = \ln u_0 (z + ct - y) + y.$$

The compensating wage approach to commuting time research usually boils down to estimating regression models which involve commuting time as well as personal and eventually firm-level and regional characteristics (Leigh 1986, Zax 1991, Manning 2003b). Our empirical model differs from earlier models in one important respect: it includes interaction terms between unemployment and human capital characteristics, meaning that an increase in unemployment should reduce the returns to productivity. The model implies that the higher the unemployment rate, the larger is the effect of commuting time on reimbursement. If our model is correct then previous regression models are misspecified and regression estimates of the compensating wage differential are biased.

Explicit reimbursement, denoted by  $R_t$  will be studied using the same logic. Using the above approximation, equation (3) implies:

$$(5) \quad R_t = \ln u_0 (z + ct).$$

Again, the model implies that the effect of commuting time (and reservation income) on explicit reimbursement is conditional on the rate of unemployment at place of work: the higher the unemployment rate, the larger is the effect of commuting time on reimbursement.

## Data

In April 2001, a survey was conducted among registered unemployed who were entitled to unemployment benefits ( $N=105,924$ ) and eventually found a job



between the 18th of March and 7th of April 2001. The primary purpose of data collection was the evaluation of the effect of the dramatic rise of the minimum wage on changes in unemployment.<sup>3</sup> In the above mentioned period, 9474 people got a job, out of which 8339 people completed the questionnaire (Köllő, 2002). The questionnaire contains both retrospective questions about the previous job and questions about the new job. This paper will use a subset of the data, consisting of 801 observations.

Survey data are rarely free of data problems. In our dataset, two problems are of special interest. First, respondents who were reemployed by the former employer were not asked about the receipt of reimbursement. Since commuting costs cannot be assumed to remain constant, these cases must be excluded. Our sample therefore is restricted to job changers. Second, when asked about the prospective job, respondents were asked to estimate the lower and the upper bounds of the salary. Unfortunately the reported minimums and maximums differ substantially in a considerable proportion of cases. We omitted respondents where the difference between the maximum and the minimum exceeds 10 thousand HUF.

Since our focus is on the effect of commuting, and migration might disturb the empirical relationship between commuting time and commuting decisions (Ihlanfeldt and Sjoquist, 1998), we exclude those unemployed who changed their place of residence during their unemployment spell. Since we wish to generalize our results to the population of job seekers with low education, we omitted respondents with college or university education. The sample selected for analyses include full-time employees aged 15-74 in 2001, who travel to work and back no more than four hours. Note that the sample includes cases where none of the variables take missing values. As a result of these decisions, we are left with 783 observations for further analyses.

Our interest centers on the relationship between wages, commuting time and reimbursement. The hourly wage variable is the reported gross monthly salary and is measured in thousand HUF. Commuting time is the time spent on traveling on an average day. Reimbursement is a dummy variable indicating respondents who either received some reimbursement of travel expenses or were transported to work on the cost of the employers. Note that we do not know the exact amount of money received by the workers.

The productivity of workers is captured by gender, a dummy indicating general high-school education and experience. The latter variable measures the number of years elapsed since the first entry to the labor market, minus the years having been unemployed. The reservation income is captured by the last gross

wage (measured in thousands of HUF) and the unemployment rate at the place of residence. In our paper, all unemployment figures were computed using the 2000 wave of the TSTAR database of the Hungarian Statistical Office. They actually measure the average number of registered unemployed divided by the size of the active population. The hourly wage variable is the reported gross monthly salary and is measured in thousands of HUF.

Table 1 shows the means and standard deviations of the variables used in subsequent analyses. The average wage exceeds the minimum wage by 7.5 thousand HUF among women and 12 thousand HUF among men. 44 percent of women and 52 percent of men receive some compensation for travel expenses. Average commuting time is 0.88 hours (53 minutes) among women and one hour among men, the grand mean being 56 minutes. The average commuter thus does not travel more than one hour per day.

*Table 1. Means and standard deviations of variables*

Variable	Women (N=344)				Men (N=439)				Total (N=783)			
	mean		sd		mean		sd		mean		sd	
Dependent variables												
gross monthly wage	47	.536	12	.333	55	.764	17	.658	52	.149	16	.064
log monthly wage	3	.836	0	.212	3	.978	0	.283	3	.916	0	.264
Receipt of reimbursement	0	.445	0	.498	0	.517	0	.5	0	.485	0	.5
Independent variables												
Commuting time	0	.881	0	.638	0	.987	0	.714	0	.941	0	.683
Commuting time squared	1	.182	1	.893	1	.483	2	.283	1	.351	2	.124
Last monthly wage	45	.163	48	.419	52	.417	28	.782	49	.23	38	.798
Unemployment rate at place of residence	5	.488	2	.77	5	.979	3	.512	5	.764	3	.215
Log unemployment rate at place of work	0	.74	0	.159	0	.753	0	.158	0	.747	0	.158
Interaction of log unemployment at workplace with												
Commuting time	0	.631	0	.447	0	.722	0	.516	0	.682	0	.489
Commuting time squared	0	.82	1	.264	1	.06	1	.58	0	.955	1	.453
Last monthly wage	32	.595	33	.343	38	.674	21	.476	36	.003	27	.478
Unemployment rate at place of residence	4	.387	3	.284	4	.877	4	.246	4	.662	3	.858

Our theoretical assumption is that persistent unemployment is maintained by the lack of spatial mobility. A brief comparison of our estimates to estimates presented in other studies shows that Hungarian workers do not lack spatial

mobility in international comparison. Using Dutch aggregate statistics, van der Vlist (2001) reports an average commuting distance of 17.5 km among men and 11.0 km among women (the gross average being 15.3 km) for 1997. In Hungary, traveling 15 kilometers using public transportation costs about 30 minutes, so the approximately one hour commuting time seems to be consistent with the Dutch findings. Using data from another Dutch survey conducted in 1998, Rouwendal and van Ommeren (2008) report an average of one hour for workers with reimbursement and half an hour for workers without reimbursement. Since 46% of the sample received reimbursement, the sample average is about 40 minutes. Almost the same figure, about 45 minutes is reported by Manning (2003) using the British Labour Force Survey for 1993-2001 and the British Household Panel Survey for 1991-2000. To summarize, the workers we study do not travel less than workers in Britain or the Netherlands. This is striking because our sample does omit people with good education and high earnings, who tend to commute larger distances (see, for example, van der Vlist 2001).

## EMPIRICAL ANALYSES

### **The relationship between commuting time, wages and reimbursement**

Before making any attempt to explain the relationship between commuting and wages, we first examine the question whether there is any relationship to explain. Table 2 shows the distribution of daily commuting time, as well as mean wages and the level of reimbursement of travel expenses as a function of commuting time. The distributions are presented separately for female and male workers. The vast majority of workers (80 percent of women and 74 percent of men) do not travel more than one hour, and the proportion of workers commuting more than 2 hours is very low. The distribution of commuting distances resembles the exponential distribution among women and the log-normal distribution among men. This pattern is not surprising: since the household is supposed to be run by women, they find longer commutes more costly than men. Our descriptive findings are similar to those reported in the literature on commuting<sup>4</sup>

*Table 2. Distribution of wages and reimbursement by commuting distance*

Commuting time	Women						Men				
	N	Mean wage		% receive reimbursement			N	Mean wage		% receive reimbursement	
1-30 minutes	144	45	.94	15	.97		156	51	.97	19	.87
31-60 minutes	133	46	.99	55	.64		167	56	.49	58	.68
61-90 minutes	27	46	.59	70	.37		44	57	.31	72	.73
91-120 minutes	26	51	.6	92	.31		50	60	.3	90	.00
121-180 minutes	12	66	.04	91	.67		19	63	.45	94	.74
181-240 minutes	2	47	.5	100	.00		3	65	.67	100	.00

The distribution of commuting time is not surprising if we look at the relationship between wages and commuting time. While average wages are monotonically increasing with commuting time among men, an inverted U shaped pattern describes the relationship among women. Given our estimates, men and women should follow different commuting strategies in order to realize the highest marginal increase in wages. Men might find it rational to commute 31-60 minutes instead of 1-30 minutes because this change improves the wage of the average male worker by about 10 percent. However, women do not gain anything from commuting 31-60 minutes or even one and half hours; if they wish to improve their wages substantially, they should commute 2-3 hours.

The proportion of people receiving any reimbursement is an increasing function of commuting time among both sexes. Especially commuters traveling more than one and half hours receive some reimbursement with a probability equal or larger than 90 percent. However, short travels, not exceeding the half an hour value, are not likely to be covered by employers. Unlike wages, the relationship between reimbursement and commuting time does not differ substantially between men and women.

Table 2 also shows that reimbursement and wages are positively correlated among men. Keeping daily commuting time constant, the higher the wages, the higher the probability of receiving some reimbursement. This finding might seem to contradict our theoretical model assuming the absence of intra-firm wage discrimination. If workers oppose intra-firm wage discrimination, employers are forced to pay the compensating wage premium in the form of explicit reimbursement, being independent of actual wages. The assumption of wage bargaining, which allows for intra-firm discrimination, seems to be more capable of explaining the positive correlation. Employers ready to pay high wages can pay a relatively small proportion of wages in the form of explicit reimbursement. The underlying incentive is tax-evasion: explicit reimbursement in Hungary

is not taxed, therefore both employers and workers are interested in receiving a part of the wage in the form of reimbursement (see for example, Rouwendal and van Ommeren 2008). Since firms paying (and workers receiving) high wages gain more from tax evasion, the correlation between wages and reimbursement must be positive. However, the conclusion that a positive association between wages and reimbursement is at odds with the assumption of no intra-firm wage discrimination is premature. First, the positive correlation between wages and reimbursement might be due to the presence of a common cause. For instance, larger firms pay higher wages, and these are large firms as well who are more likely to comply with the legal rules prescribing the reimbursement of travel expenses. It is also possible that respondents who received some reimbursement misinterpreted the survey question concerning the wage and reported a higher figure.<sup>5</sup>

## The effect of commuting time on wages

We proceed with the regression analysis of the relationship between wages and commuting time in order to estimate the net effect of commuting time. We estimate two regression models. The first specification obtains if we substitute the empirical measures of productivity and reservation income into equation (4). The second specification obtains if the square of the commuting time variable is added to the model in the following way:

$$w_i = \ln u_0(z + ct + dt^2 - y) + y.$$

We label these specifications the linear and curvilinear specifications, respectively.

The models are estimated using ordinary least squares. In the literature, returns for commuting time are often estimated using household or individual level fixed effects regressions. The aim of this modeling strategy is to minimize the bias arising from endogenous residential choices and to remove spurious correlations arising from the effect of unobserved characteristics on both wages and commuting time. Endogenous moving are not a concern here because our sample does not include people who have changed place of residence. We believe that the last wage, which is intended to capture the reservation income, also reflects unobserved personality traits. The assumption here is that employers can observe the personality traits that were hidden at the beginning of the match and update their beliefs about workers' productive abilities. The last wage variable refers to the end of a worker-job match, thus it can be expected to incorporate the

employers' assessment of productive abilities. We therefore use simple ordinary least squares instead of using fixed-effects regressions.

Estimation results are presented in Table 3. While the coefficient of commuting time lacks statistical significance in the linear specification (Model 1), it is significant in the curvilinear specification (Model 2). The same applies to the interaction between commuting time and log unemployment at place of work. The significance level of other variables is not affected by the choice of specification. The interpretation of the results therefore is based on the estimates of the curvilinear specification (Model 2). As we will see, the results from Model 2 also explain why we failed to find a significant effect of commuting time in Model 1.

*Table 3. OLS estimates of log monthly wages*

Variable	All				Women				Men			
	Model 1		Model 2		Model 1		Model 2		Model 1		Model 2	
Main effects												
Commuting time	0	.0428	0	.4536*	-0	.0031	0	.5083*	0	.0391	0	.4695*
	(0	.262)	(0	.003)	(0	.486)	(0	.032)	(0	.348)	(0	.02)
Commuting time squared			-0	.1572*			-0	.2141*			-0	.1502*
			(0	.006)			(0	.037)			(0	.018)
Last monthly wage	0	.0003	0	.0003	0	.0042	0	.0045	0	.003	0	.003
	(0	.457)	(0	.447)	(0	.171)	(0	.161)	(0	.125)	(0	.123)
Unemployment rate at place of residence	-0	.0288*	-0	.0313*	-0	.0027	0	.0007	-0	.0272*	-0	.0311*
	(0	.003)	(0	.001)	(0	.425)	(0	.48)	(0	.017)	(0	.01)
Experience	0	.0022	0	.0022	-0	.0111	-0	.0082	0	.001	-0	.0011
	(0	.428)	(0	.425)	(0	.272)	(0	.331)	(0	.478)	(0	.476)
Experience squared	0	.0000	0	.0000	0	.0004	0	.0003	0	.0001	0	.0001
	(0	.45)	(0	.479)	(0	.26)	(0	.323)	(0	.436)	(0	.405)
High-school education	0	.201*	0	.2135*	0	.0441	0	.0775	0	.3332*	0	.329*
	(0	.022)	(0	.016)	(0	.374)	(0	.288)	(0	.024)	(0	.025)
Male	0	.3898*	0	.3796*								
	(0	.000)	(0	.000)								
Log unemployment rate at place of work	-0	.1649	0	.0543	-0	.1217	0	.2629	-0	.3134	-0	.1047
	(0	.183)	(0	.394)	(0	.358)	(0	.241)	(0	.103)	(0	.344)

# COMPENSATION FOR COMMUTING

<i>Interaction of log unemployment at workplace with</i>												
Commuting time	0	.033	-0	.5137*	0	.0855	-0	.7053*	0	.0369	-0	.4746
	(0	.354)	(0	.01)	(0	.229)	(0	.041)	(0	.39)	(0	.055)
Commuting time squared			0	.2154*			0	.3357*			0	.1842*
			(0	.011)			(0	.037)			(0	.036)
Last monthly wage	0	.0014	0	.0013	-0	.0054	-0	.0059	0	.0003	0	.0003
	(0	.325)	(0	.335)	(0	.192)	(0	.181)	(0	.464)	(0	.464)
Unemployment rate at place of residence	0	.0217*	0	.024*	-0	.0053	-0	.0098	0	.0202*	0	.024*
	(0	.012)	(0	.007)	(0	.364)	(0	.262)	(0	.042)	(0	.026)
Experience	-0	.0004	-0	.0006	0	.0284	0	.0236	-0	.0034	-0	.0008
	(0	.49)	(0	.484)	(0	.111)	(0	.16)	(0	.437)	(0	.486)
Experience squared	-0	.0001	-0	.0001	-0	.0009	-0	.0007	-0	.0001	-0	.0001
	(0	.381)	(0	.412)	(0	.115)	(0	.171)	(0	.464)	(0	.43)
High-school education	-0	.1038	-0	.1225	0	.1344	0	.0865	-0	.3394	-0	.3369
	(0	.201)	(0	.161)	(0	.221)	(0	.313)	(0	.055)	(0	.055)
Male	-0	.3189*	-0	.3069*								
	(0	.001)	(0	.002)								
Constant	3	.8573	3	.691	3	.8007	3	.5484	4	.046	3	.8663
	(0	.000)	(0	.000)	(0	.000)	(0	.000)	(0	.000)	(0	.000)
N	783		783		344		344		439		439	

*Notes: Numbers in parentheses are p-values.*

*Coefficients significant at the 5 percent level are marked by asterisk.*

Since our regression models include interaction terms, the positive main effect of commuting time together with the negative main effect of its square does not imply that there is an inverted U shaped relationship between commuting time and wages. The main effects of commuting time variables are meaningful in an economy where unemployment rate at place of work is 1 percent. If this were the case, there is indeed an inverted U shaped relationship; the wage-maximizing commuting time is about 71 minutes among women and 94 minutes among men. Note, however, that the interaction between log unemployment and commuting time is positive and the interaction between log unemployment and commuting time is negative. This means that as unemployment at place of work increases, the relationship between commuting time and wages first becomes more and more flat then U shaped. Another implication is that the wage-maximizing

commuting time decreases as the unemployment at place of work increases. Among women, the predicted optimal commuting time is zero (or lower than zero) if unemployment at place of work is 5 percent or higher. Among men, the predicted optimal commuting time reduces to zero if unemployment at place of work is about 10 percent or higher. In our sample, the average of unemployment at place of work is about 5 percent, which explains why the commuting time variable lacked statistical significance in the linear specification (Model 1).

Our wage posting framework implies that unemployment at place of work modifies the returns to human capital and the reservation income. More specifically, if unemployment in the center of local labor markets increase, returns to human capital should decrease but returns to the reservation income should increase. Our results do not support this prediction unambiguously. The main problem is with commuting time. Unemployment does affect returns for commuting time, but the direction of the effect is negative instead of being positive. Commuting time is a component of the reservation income in the model, therefore the returns for commuting time should increase with unemployment at place of work. The evidence presented here clearly contradicts this expectation. Within our theoretical model, the unexpected negative interaction effect can be explained in three different ways. First, one might assume that commuting increases productivity: since unemployment lowers the returns to productivity, the negative interaction effect between commuting time and productivity obtains. The assumption of a positive relationship between commuting distance and productivity were realistic in a sample of qualified white-collar workers who moved to suburbs and commute to well paid jobs, or in a sample of urban residents who work in rural areas. Since our sample includes people with low educational levels, and mainly rural residents who work in urban areas, this explanation can be rejected. Second, one might argue that searching for employees who live in spatially remote areas is more costly than to search for local workers. This assumption is standard in the literature on spatial mismatch (see Gobillon, Selod and Zenou 2007). The positive association between commuting distance and search costs is also consistent with the hypothesis that employers prefer informal employee referrals as the means of filling vacancies. If personal contacts are more likely to emerge with commuting distance, employers who wish to hire spatially remote workers cannot rely on referrals and must incur some recruitment costs. The final logical possibility is that one assumes that the reservation income decreases with commuting time. This assumption is realistic if the representative commuter is engaged in informal economic activities as well, so that she establishes a lower reservation level towards market income.



Another puzzling finding is the positive interaction effect between log unemployment at workplace and unemployment at residence among men. Our model implies that unemployment at place of work should decrease the (negative) effect of unemployment at place of residence on wages since the latter is negatively associated with the reservation income. The finding can be explained with the assumption that unemployment at place of residence also expresses a low level of productivity (Gobillon, Selod and Zenou 2007). One reason is that longer trips make workers tired, and commuters are more likely to be late, especially if public transport is bad. Another reason is territorial discrimination, emerging from the spatial segregation of ethnic minorities. In Hungary, a substantial proportion of the discriminated Roma minority lives in small villages far from urban areas, thus pessimistic expectations concerning the productivity of Roma should overlap with pessimistic expectations about the productivity of commuters. The spatial location of the worker thus signals not only a low reservation income but also a low level of productivity.

One should also note that unemployment at place of work does not seem to modify the returns to human capital, with the exception of gender in the full sample. A straightforward explanation of the lack of empirical support concerns the characteristic of our sample. First, the sample includes people who were successful in escaping unemployment. Since productive abilities deteriorate during unemployment, it might be the case that employers think of past unemployment of individuals as a dominant signal of productive abilities, which suppress other available information, like education and experience. Besides, the discovery of interaction effects is usually difficult in samples which are larger than our sample.

## The effect of commuting time on reimbursement

Finally, we examine the effect of commuting time on reimbursement. Again, we estimate both a linear and a curvilinear specification. The linear specification obtains if we substitute the empirical measures of reservation income into equation (5). The second specification obtains if the square of the commuting time variable is added to the model in the following way:

$$R_i = \ln u_0(z + ct + dt^2).$$

Since only the receipt of any reimbursement is observed, the estimation method is logistic regression. Variables measuring human capital are not included since they do not appear at the right-hand sides of the equations. But we do include monthly wages in order to check whether reimbursement is independent of the wage. Under the assumption of no intra-firm discrimination, the probability

of receiving some reimbursement must be independent of wages. If, however, reimbursement is a form of tax evasion, we should observe a positive relationship between reimbursement and wages, since the gains from tax evasion increase with wages.

*Table 4. Logistic regression estimates of receipt of reimbursement*

Variable	All				Women				Men			
	Model 1		Model 2		Model 1		Model 2		Model 1		Model 2	
Main effects												
Commuting time	0	.2567	0	.7274	1	.6692	4	.7338	-0	.6737	-0	.1338
	(0	.758)	(0	.734)	(0	.193)	(0	.228)	(0	.569)	(0	.962)
Commuting time squared			0	.0921			-1	.1379			0	.1064
			(0	.901)			(0	.449)			(0	.909)
Last monthly wage	-0	.0056	-0	.0043	0	.0345	0	.039	0	.0012	0	.0011
	(0	.777)	(0	.83)	(0	.423)	(0	.37)	(0	.963)	(0	.965)
Unemployment rate at place of residence	0	.6376*	0	.6118*	1	.0679*	1	.0099*	0	.5116*	0	.5015*
	(0	.000)	(0	.000)	(0	.000)	(0	.000)	(0	.006)	(0	.005)
Log unemployment rate at place of work	-4	.172*	-4	.419	0	.2036	1	.4248	-4	.130	-4	.3302
	(0	.041)	(0	.074)	(0	.958)	(0	.767)	(0	.122)	(0	.174)
Gross monthly wage	0	.009	0	.0097	0	.0472*	0	.0500*	-0	.0059	-0	.0059
	(0	.144)	(0	.125)	(0	.003)	(0	.003)	(0	.427)	(0	.436)
Male	-0	.831	-0	.853								
	(0	.374)	(0	.364)								
Interaction of log unemployment at workplace with												
Commuting time	2	.7352*	4	.1228	1	.0587	-0	.8962	3	.9504*	5	.0329
	(0	.015)	(0	.171)	(0	.51)	(0	.874)	(0	.018)	(0	.199)
Commuting time squared			-1	.0486			0	.5465			-0	.9616
			(0	.345)			(0	.813)			(0	.497)

Last monthly wage	0	.0091	0	.0074	-0	.0553	-0	.0612	0	.0095	0	.0095
	(0	.749)	(0	.799)	(0	.377)	(0	.333)	(0	.778)	(0	.778)
Unemployment rate at place of residence	-0	.4532*	-0	.4241*	-0	.8071*	-0	.7468*	-0	.3655*	-0	.3488*
	(0	.000)	(0	.001)	(0	.002)	(0	.003)	(0	.028)	(0	.025)
Male	1	.2174	1	.2361								
	(0	.336)	(0	.33)								
Constant	-0	.9986	-1	.4744	-6	.6813	-8	.373	-0	.1575	-0	.6072
	(0	.486)	(0	.398)	(0	.015)	(0	.015)	(0	.936)	(0	.794)
N	783		783		344		344		439		439	
Log-likelihood	-397	.624	-392	.626	-162	.534	-160	.141	-225	.606	-223	.159
$\chi^2$	121	.568	178	.736	64	.322	88	.852	67	.162	93	.937

*Notes: Numbers in parentheses are p-values. Coefficients significant at the 5 percent level are marked by asterisk.*

The estimated coefficient are shown in Table 4. Contrary to the previous wage equations, the linear specification seems to perform better than the curvilinear one. Although the main effect of commuting time lacks statistical significance, its interaction with unemployment at place of work is positive and significant in the sample of men. This means that longer commutes imply a higher probability of receiving reimbursement only if the unemployment rate is sufficiently high at the place of work. Our estimates suggest that sufficiently high means an unemployment rate of about ten percent or higher. This pattern clearly supports the theoretical prediction that unemployment should increase the returns for commuting in terms of reimbursement. Unfortunately, the interaction effect is not significant among women.

The interaction between the two unemployment variables is also significant. The negative sign is consistent with the assumption that the unemployment rate at place of work is a negative indicator of reservation income, but contradicts the assumption that it is a negative indicator of productivity. In the previous analysis, we interpreted the unexpected positive interaction of the unemployment variables using the assumption that unemployment at place of residence expresses a low level of productivity. The change in the interpretation seems to be a contradiction. However, one should keep in mind that the decision on reimbursement differs from wage setting in an important respect: employers do consider productivity when deciding on wages, but they do not consider productivity when making decisions on reimbursement. If workers oppose intra-firm wage discrimination

and employers establish a wage structure, the decision to reimburse travel expenses is made independently of productivity. Therefore, the finding of a negative interaction between the unemployment variables in the reimbursement regression does not contradict the positive interaction between the same variables in the wage regression, since only the latter is affected by the fact that employers think of unemployment at place of work as a negative signal of productivity.

## CONCLUSIONS

Observers of the persistent regional differences in unemployment argued that high costs of commuting prevent residents of high unemployment areas from finding employment in other areas. This paper examines the relationship between commuting distance, on the one hand, and wages and the receipt of explicit reimbursement, on the other. We develop a simple wage posting model, which implies not only a positive effect of commuting time on wages and reimbursement, but also that returns for commuting must be larger if the unemployment rate where jobs are situated is large as well. We test our predictions using data on low educated workers who were registered unemployed and got a job in march 2001.

We find some evidence that returns for commuting is indeed conditional on unemployment rate. First, we find a positive effect of commuting time on wages, which, however, decreases with unemployment at place of work. This conditional effect contradicts our expectation of a positive impact of unemployment on returns for commuting time. However, the found pattern can be explained with the assumption that commuting time is also a signal of low productivity: if this is the case, the observation is consistent with the wage posting model, which hypothesizes a negative effect of unemployment on returns to productivity. We also find evidence among male workers that commuting time increases the probability of receiving some reimbursement of travel expenses, conditional on high unemployment at place of work. This finding is consistent with our theoretical framework.

The research outlined in this article is an attempt to contribute to the explanation of persistent regional inequalities in Hungary. In regions where unemployment is high, the unemployment rate in the large towns, which can be considered as centers of local labor markets, have an unemployment rate of approximately 10 percent. The findings suggest that in such a labor market commuting time is not associated with a compensating wage premium, but it is associated with a higher probability of receiving reimbursement. Although we did not observe the actual value of reimbursement, it is safe to assume that all commuting costs are never reimbursed. First, labor law prescribes that employers must reimburse

a percentage of the monetary costs of travel, which is lower than 100 percent. Second, employers probably do not wish to reimburse the monetary value of time spent on traveling. These facts together imply that employers do not compensate for costly commuting. The present study therefore supports the conclusion of previous studies: commuting is too costly to induce people living in high unemployment regions to find a work in urban areas (Köllő, 1997, 2006; Kertesi, 2000).

The findings might suggest that reimbursement of expenses on the part of employers is a necessary condition for the reduction of persistent regional inequalities. This conclusion, however, neglects the possibility that employers will reduce labor demand as a reaction to increases in labor costs. If employers cut labor demand, it is difficult to predict the net effect of reimbursement of expenses on regional differences in unemployment rates. Without knowing the precise effect of reimbursement of travel expenses on labor demand, it is impossible to formulate firm policy recommendations.

A fundamental limitation of our study is absence of information on the level of reimbursement. Our theoretical model predicts a trade-off between wages and reimbursement. An exact test of the model predictions requires data about the amount of reimbursement received. Unfortunately, we do not have such data at our disposal. Therefore, our interpretation of the evidence is not the final word on the subject.

Our study has limitations because of the sample and the estimation method we used. A substantial limitation of our study is that our sample is probably not free of sample selection problems (Cooke and Ross 1999). Our sample was taken from a survey of unemployed, and unsuccessful job searchers are not included in the sample. This might lead to the problem of self-selection if unobserved factors determining the success of job search (getting a job) are correlated with unobserved determinants of wages or commuting decisions.

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## NOTES

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- 2 Rouwendal and van Ommeren (2007) arrive at the same result, albeit using a different reasoning.
- 3 In January 2001, the minimum wage rose from 25.5 to 40 thousand HUF.
- 4 For the United Kingdom, Manning (2003b) finds that about 80 percent of employees commute less than or equal to one hour; for selected cities, an average of 4.5 km is found (Frost and Linneker 1998). For the Netherlands, van Ommeren (1996) found that half of the workers commute less than 8 kilometers and only 10 percent of workers commute more than 32 kilometers. In terms of commuting time, half of the workers commute less than 20 minutes. (These estimates use the so-called Enquete Beroepsvolking, having been conducted in 1992.) For the United States, estimates are 8.7 miles (Hamilton 1982), estimates in commuting time are 22.5 minutes (White 1988). A recent overviews of empirical findings (Rodriquez 2004) suggest that average commuting time in US cities ranges between 14 and 23 minutes and average commuting distance ranges between 14 and 25 kms.
- 5 Unfortunately, the survey question did not make it clear to the respondents that they should not think of reimbursement when they estimate or tell their wages.

