

## LOCAL ECONOMIC DEVELOPMENT IN HUNGARY – THROUGH THE EXAMPLE OF A DISADVANTAGED SETTLEMENT

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**Abstract:** *In 2011, the public employment system in Hungary underwent a complete overhaul. This active employment policy tool is a unified public employment system designed to alleviate unemployment caused by the global economic crisis, but it had already been in place in Hungary for decades. Public employment has been criticised because it does not return the unemployed to the primary labour market, with most of them stuck in this temporary solution. The research presents the good practices of local economic development in a disadvantaged, low-population settlement (Szemere), which started with public employment. Local economic development initiatives of this kind are crucial in Hungary, as the settlement structure in Hungary is characterised by a large number of small villages, where job opportunities in the primary labour market are limited. The research is based on a qualitative case-study approach combined with field research conducted in Szemere settlement in Hungary. The study analyses the local development strategies, employment effects, and community impacts.*

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### 1. Introduction

Local Economic Development (LED) emerged in the early 1970s as municipalities recognised that businesses and capital are mobile across different geographical locations in search of comparative advantages (Beauregard, 1993). By assessing the foundations of their economies, local communities were able to better understand the factors that hindered or facilitated economic growth and investment expansion. Equipped with this new knowledge, communities sought to broaden the foundations of their economies and employment through strategically planned programs and projects. These initiatives aimed to eliminate potential barriers and promote investment (Malizia et al., 2020).

Today, the economic success of every settlement depends on how effectively it can adapt to the dynamically changing local, national, and international market economy. Systematically developed LED approaches are increasingly used worldwide by settlements seeking to strengthen their local economic capacity and improve the competitiveness and productivity of local industries, businesses, and workers. A community's ability to raise living standards, create new economic opportunities, and overcome poverty largely depends on how well it understands the processes of LED and how effectively it can respond to the challenges of a changing and competitive market economy (Bartik, 1991).

### 2. Literature Review

Various definitions of local economic development exist; however, its main objective is to improve the quality of life of the local population. In this approach, cooperation prevails

over competition, and the effectiveness of social capital is emphasized rather than the efficiency of private capital (Faragó, 1994).

According to Mezei (2006), local economic development is a conscious intervention in the life of the local economy that utilises external and/or internal resources. The initiative may originate from external actors (e.g., government, the European Union, or foreign capital); however, the key to the process is the participation of local stakeholders. These actors may participate either as initiators or as supporters and shapers of externally proposed development initiatives.

Swinburn et al. (2004) argue that local economic development aims to build the economic capacity of a region in order to secure its economic future and ensure an adequate standard of living for its population. It is a process in which public authorities, local governments, entrepreneurs, and private sector partners collaborate to create more favourable conditions for economic growth and the labour market. It can be concluded that the economic success of any settlement today depends on how well it can adapt to the local, national, and international market economy. In this regard, local economic development plays a key role. The planning and implementation of local economic development strategies are determined by the economic, social, and physical characteristics of a settlement (Fleischmann et al., 1992).

Whether a community can create new economic opportunities, improve its standard of living, and overcome poverty depends largely on how well it understands these processes and how it responds to the ongoing challenges of the market economy. If a locally based employment-centred system operates effectively, it can provide a predictable quality of life. Jobs created by local small and medium-sized enterprises are strongly embedded in the local economy, thereby providing stability for local economic systems. Another advantage is that when the local business environment is supportive, profits generated from local resources tend to remain within the community and contribute to its further development (Tóth, 2007).

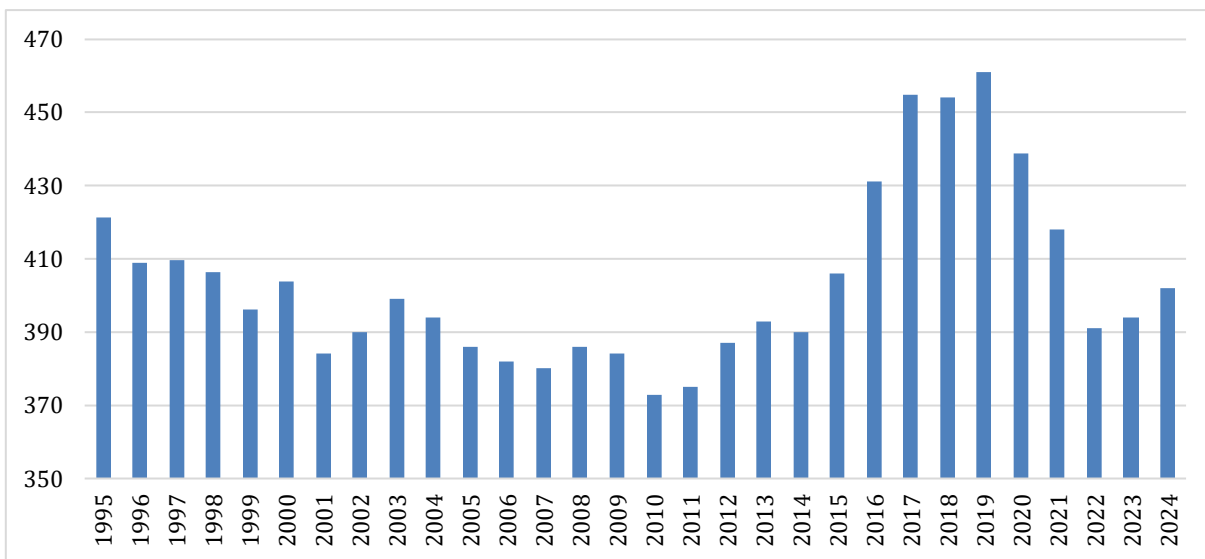
### 3. Methodology

Szemere is a settlement located in the northeastern part of Hungary, in Borsod-Abaúj-Zemplén County, approximately 5 kilometres from the Slovak border, within the Encs district and about 19 kilometres from the town of Encs. More than 5 kilometres of the administrative boundary of the settlement coincide with the state border.

The settlement of Szemere was first mentioned in written sources in the first half of the 13th century. In terms of its administrative status, Szemere is classified as a village and operates within a joint municipal office system, the seat of which is located in Szalaszend. The total population of Szemere is 384 residents.

The diagram illustrates the number of permanent residents at the end of each year. From a demographic perspective, the settlement is in a relatively favourable position compared to the national average. As shown in the previous diagram, the population has not decreased significantly over the past ten years.

Examining the data from the last decade, it can be observed that the population increased between 2015 and 2019. After that period, by 2022 the population of the settlement had almost returned to the same level as in 2015. The population figure for this year is also identical to that recorded ten years ago.

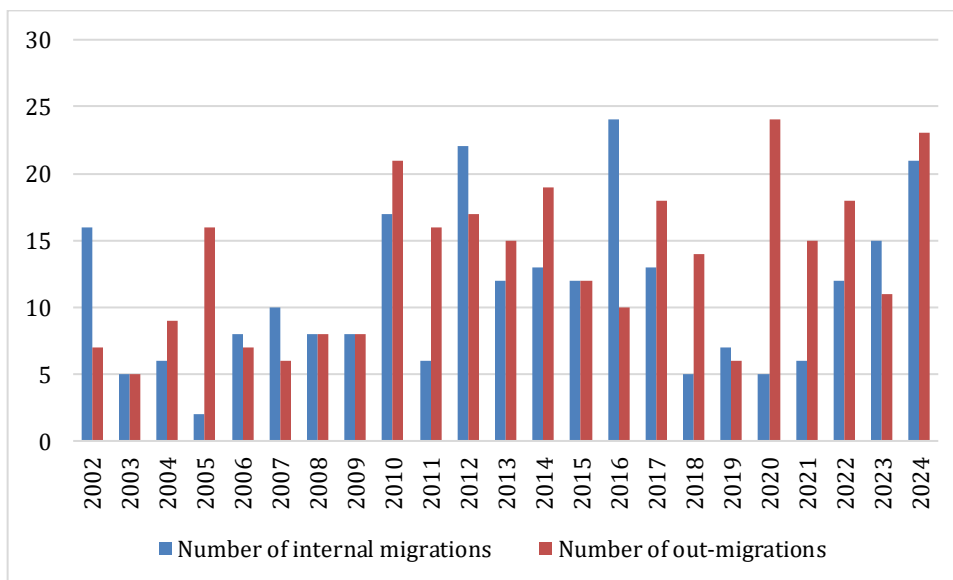


**Figure 1. Population trends in Szemere between 1995 and 2024**

*Source: www.stainfo.ksh.hu*

In my opinion, one possible reason for the decline could be the COVID-19 pandemic, as the number of deaths increased significantly in 2020–2021, when the population began to show a decreasing trend. Another reason may be that many people are unable to find employment in the region or in nearby settlements and therefore leave their homes in search of more attractive job opportunities.

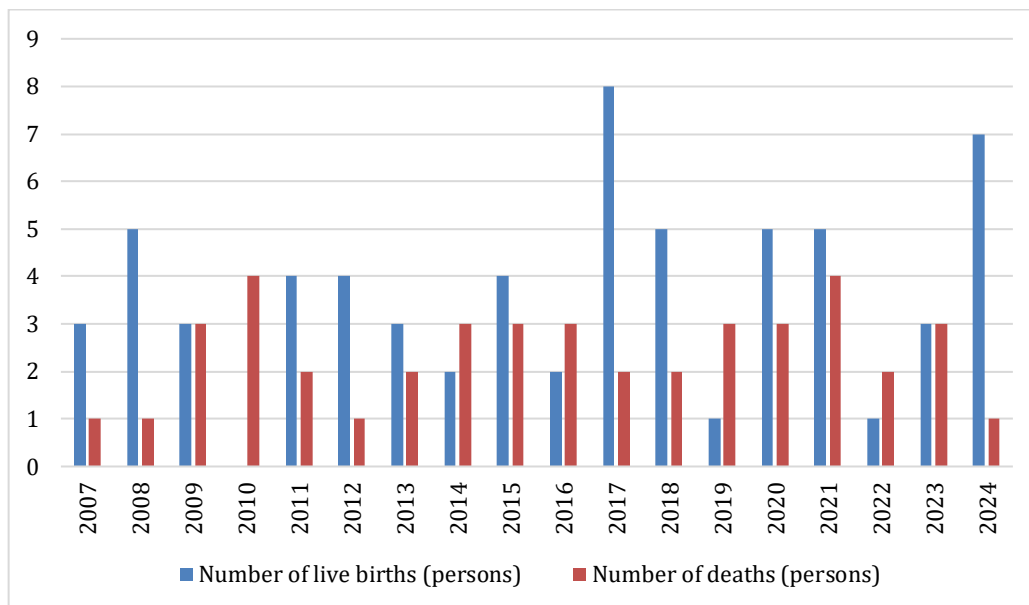
Closely related to the number of permanent residents are the next two diagrams, which clearly illustrate the trends in migration as well as live births and deaths over the past ten years.



**Figure 2. Trends in migration in Szemere between 2002 and 2024**

*Source: www.stainfo.ksh.hu*

It can be stated that during the past ten years, the number of in-migrations was either equal to or higher than the number of out-migrations in seven years. During the examined period, the highest number of out-migrants occurred in 2020; in my opinion, this may again be attributed to the negative effects of the pandemic period.



**Figure 3. Number of live births and deaths, 2007–2024**

*Source: www.stainfo.ksh.hu*

The number of live births in the settlement ranged between 4 and 13 over the past decade, with the “baby boom” in 2017 standing out. In two years, 2014 and 2021, the number of births was lower than the number of deaths in those respective years. In the latter case, this may again be attributed to the effects of the global pandemic, which was a period marked by uncertainty.

The current population structure of Szemere is ageing; the proportion of Roma residents is high, and the unemployment rate is above the national average. From an employment perspective, disadvantaged groups include older people approaching retirement age, women returning to the labour market after childbirth, and people with reduced work capacity and disabilities. In addition, labour market participation among the 15-24 age group is relatively low.

Entrepreneurial willingness and business activity in the region are extremely low. The settlement is not served by railway transport; the nearest railway station is located 13 km away in Méra. The only form of public transportation available is the Volán bus service. Szemere is located approximately 60 km from the county seat, the city of Miskolc.

A high unemployment rate can be observed in the village, partly due to its location in Abaúj, one of the most disadvantaged regions of the country. The district centre, the town of Encs, can only be reached by bus, and even there, employment opportunities are limited and are mostly filled by residents or people from nearby settlements.

Among the operating businesses, a significant proportion are small-scale enterprises employing only a few people, often characterised by limited capital and operational difficulties, frequently referred to as “necessity enterprises.” The emergence of well-capitalised businesses is discouraged by inadequate infrastructure and the lack of a skilled workforce.

## 4. Results and Discussion: Public employment in Szemere

At the beginning of 2011, the public employment system in Hungary underwent a complete transformation. A unified public employment system was established to address the unemployment caused by the global economic crisis. Its main objective was to activate people who had been excluded from the labour market by providing useful, value-creating employment (“work instead of welfare”), helping them maintain their work capacity and acquire work routines that could facilitate their integration into the primary labour market.

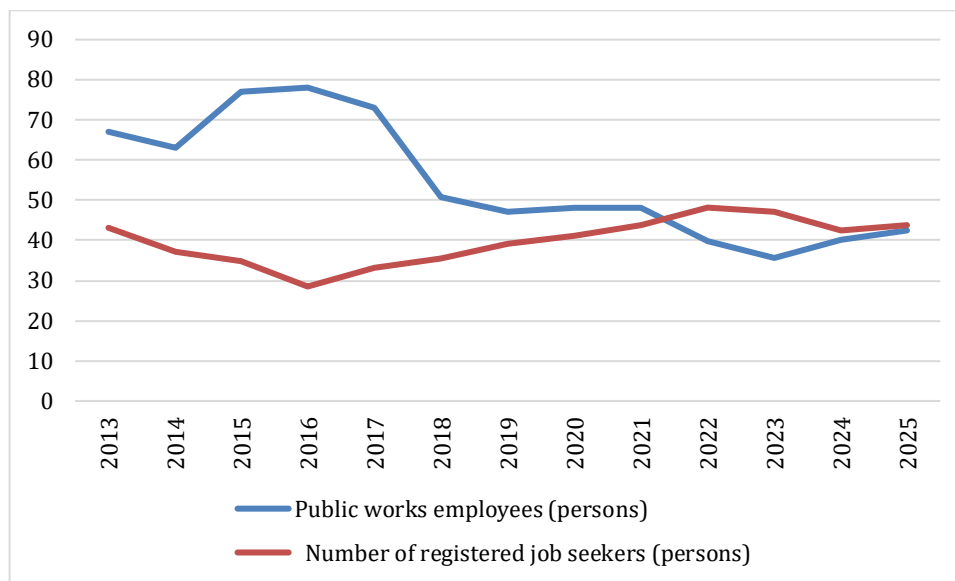
The public employment system gained an unexpectedly significant role. In 2014, more than 560,000 people participated in various public employment programs funded by approximately 230 billion HUF of public resources, which was considered extremely high even by international standards. Another characteristic of the Hungarian system is that participants do not enter into a traditional employment relationship but rather into a public employment legal status, which is similar to fixed-term employment. Participants are entitled to social security benefits and 20 days of paid annual leave; however, their wages do not reach the guaranteed minimum wage. As a result, public employment offers less favourable conditions and thus only imitates regular employment, aiming to encourage participants to seek jobs in the open labour market and eventually reintegrate successfully into the primary labour market.

Public employment, which creates jobs through state funding, currently serves three main purposes: reducing poverty, improving employability, and providing public goods. In Hungary, the establishment of the agricultural public employment system is linked to the second objective – improving employability – and it was also launched in 2011 under the name Start Work pilot program (Startmunka mintaprogram). The essence of this employment policy tool was that the available resources could only be used for regional and settlement development in disadvantaged micro-regions and settlements. It targeted areas of the country characterized by persistently high unemployment and the accumulation of social problems.

Public employment provides temporary work opportunities for individuals whose independent job search has been unsuccessful for a long time. This is also the case in Szemere, where, unfortunately, almost the same individuals have been returning to these programs for years.

All the information I obtained about public employment comes from an interview with an employee of the Mayor’s Office. I did not have the opportunity to ask my questions in person; therefore, I contacted the office by telephone. The answers to my interview questions were not provided by the mayor, Ferenc Farkas, but by Adrienn, an employee of the municipality who, among many other responsibilities, is also involved in tasks related to public employment and the social cooperative.

The following diagrams clearly illustrate the total number of participants in public employment in the settlement over the past ten years, as well as the number of individuals employed within different forms of public employment.



**Figure 4. Number of public works employees in the municipality of Szemere from 2013 to 2023**

*Source: [www.kozfoglalkoztats.bm.hu](http://www.kozfoglalkoztats.bm.hu)*

The above diagrams clearly show that in recent years, the number of participants in public employment in the settlement has been declining. It can be observed that in 2016 the number of people working in this form was nearly twice as high as in recent years.

Within the framework of the Start Work agricultural public employment program, pigs and chickens are raised locally, and grain crops (wheat, barley, and corn) are cultivated to feed the animals. The piglets are sold, while the eggs produced through poultry farming are used in the municipality's kitchen for public catering, with some also being sold.

Public employees are also responsible for maintaining the settlement, including keeping public spaces and parks clean and contributing to the creation of a well-maintained and orderly village environment. Within the Start Work pilot program, a cold storage facility was built, and the old granary building was renovated, which is currently used by the Social Cooperative.

Additional employment opportunities are quite limited for the local population. Approximately 6–8 people commute to work at Robert Bosch Power Tool Kft. in Miskolc using a company minibus. Others work in the local shop, at the forestry service, or at Borsod Volán.

The primary objective of social cooperatives is to create employment opportunities for disadvantaged individuals and to contribute to improving their social conditions through various means. In most cases, operating cooperatives are established through bottom-up initiatives. Social cooperatives organized on the foundations of public employment are typically engaged mainly in agricultural production, food processing, the production of local products, and the provision of services.

The concept of the Start Social Cooperative emerged around 2019. It is important to note that, in addition to the regulations governing social cooperatives, a municipality classified as a public employer must participate both in the establishment and in the operation of such cooperatives. Furthermore, among the founders, there must be at least one individual who is employed by the municipality within the public employment system, that is, a public worker.

The Kánásalja Social Cooperative operating in Szemere was established on April 4, 2015, and by the end of 2019, it was renamed the Kánásalja Economic and Service Start Social Cooperative. The cooperative's main activities include the cultivation of cereals, apples, grapes, spices, and medicinal herbs, animal husbandry, meat processing, fruit juice production, food trade, as well as construction and demolition activities.

The Start Social Cooperative operating in Szemere employed four people for several years; currently, two young men are employed under simplified employment contracts (daily registration). They produce 100 per cent fruit juice without preservatives for the cooperative, which is then sold to public catering services. They also produce fruit juice under contract manufacturing and undertake smaller construction works, for which they receive wages higher than those in public employment. The cooperative's revenue currently just covers its expenses.

## 5. Conclusions

According to the mayor, there is unfortunately a high demand for public employment, as job seekers find it difficult to obtain employment in the labour market. The settlement is located in a rather remote area, far from the factories that are still operating, and commuting to these workplaces would not be feasible.

Public employment does not generate direct financial benefits for the settlement; however, it ensures that the village of Szemere and its cemetery are kept clean and well-maintained. Those employed in long-term public employment programs mow the grass, collect litter, and clear fallen leaves in the autumn. In other words, they are responsible for maintaining the settlement. They also renovate benches and waste containers. In addition, the municipality purchases flowers in the spring, which are planted and maintained throughout the village by public workers.

However, experience shows that each year the municipality receives less funding for operational costs. Beyond the expenses planned within the public employment programs, the municipality must continuously finance additional costs from its own resources. In many cases, they operate almost entirely from their own funds and receive only wage subsidies from the state.

For many residents, public employment programs provide their main source of livelihood. Adrienn also acknowledged that the wages these workers receive are very low, and that many of them can only survive with considerable financial hardship. She cannot imagine what would happen to these residents if public employment were to be discontinued, as this opportunity currently ensures their subsistence. Several participants in the program eventually transition from public employment into early retirement once they reach the age of 60.

She also noted that earlier public employment programs had significantly greater financial resources, allowing the purchase of high-value equipment. For example, the municipality was able to acquire industrial machinery for fruit juice production, which is still in use today. With the help of these resources, they were able to carry out several improvements that contributed to the development and beautification of the settlement.

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