
ARE THERE ANY DISTORTIONS IN THE ECONOMIC MANAGEMENT OF THE HUNGARIAN NON-PROFIT SECTOR? ECONOMIC ASPECTS OF DUALITY¹

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INTRODUCTION

The present study may seem quite eclectic because it concentrates on two questions, which can be regarded controversial. One of them is about the effect of the economic potential on the development of the Hungarian non-profit sector, while the other deals with local and regional identity influencing the growth of the organizations, its presence or lack in the world of civil organizations. First of all, I will concentrate on some inconsistencies in the development of Hungarian non-governmental organizations. Before I come to this point, I intend to touch on a number of effects and tendencies, which have significant implications for our subject and serve as a framework to better understand the Hungarian process.

In every developed, democratic country of the world, non-governmental organisations (NGOs) are indispensable components of the democratic political systems, playing an important mediator role between society and the political institutions. Their number, role, and influence have been increasing since World War II. The attention directed at NGOs may primarily be attributed to the more than two-decade-long crisis of the state as well as the crisis phenomena of representative democracy based on political parties.

In Europe this crisis manifested itself in various forms. In the developed North, the traditional welfare social policy was questioned; in a considerable part of the developing South, people became disillusioned with state-controlled development; in Central and Eastern Europe, state socialism collapsed.

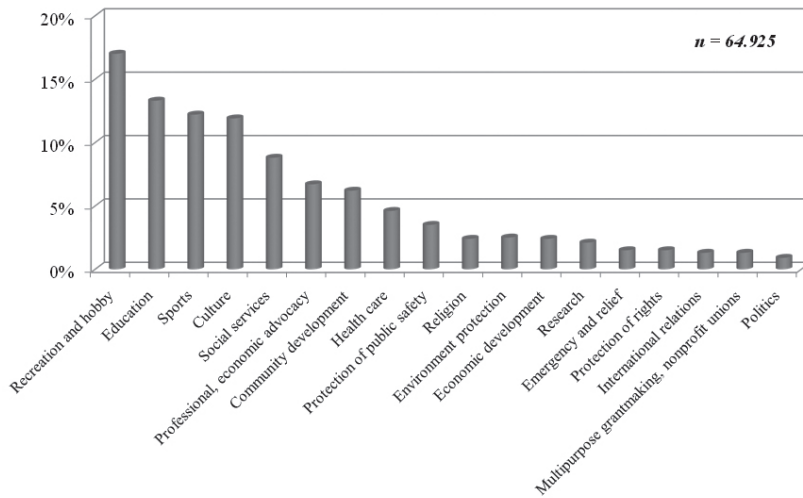
¹ The material of the presentation was made with the support of János Bolyai Research Scholarship.

CIVIL SOCIETY TENDENCIES IN A HISTORIC CONTEXT

In Central and Eastern Europe, the development of the non-profit sector is essentially linked with the 1989 revolutions. During Communist times, except for a short period, civil society was disrupted. After the 1956 revolution it was only Hungary, Poland and the former Yugoslavia where a limited pluralism was allowed at the universities and in the arts and culture sectors. A newly emerged civil society was prepared by the Solidarity movement in Poland; by a range of small clubs and societies in Hungary; and by peace and green movement groups in Czechoslovakia.

The escalation of the economic, political and social crisis from the mid 1980's generated a "revival" of organisational life in Hungary. At the beginning of the '80's, new types of social self-organization emerged from peace movements to eco-movements, which were later followed by a "new wave" of student movements, a self-directing college movement and the club movement within and outside universities, as well as politically oriented associations and forums. The start of opening up was marked by the re-appearance of the foundation as a legal entity in 1987, then it went on with the ratification of the Associations Act in 1989, and it was concluded with the amendment of Civil Code (enacted in 1990), which abolished the former restriction that a foundation could only be set up with the approval of the relevant government authority. Following the 1989 Act, which guaranteed the conditions of freely setting up organisations, taking advantage of the historical opportunity and the erosion of the political system, the number of organisations was growing continuously. While in 1982 there were 6,570 registered organisations, in 1989 there were 8,514. The internal structure of the sector also changed: between 1987 and 1989 the number of art, city preservation, and cultural organisations increased sevenfold, and the number of other, typically self-starting associations (environmental protection, humane, pensioner, economic/professional) also increased tenfold.

We also need to highlight the counter process during which double transformation of the former state party power took place. By breaking up the former assets of the state party and building on the infrastructure of some of its satellite organizations, new associations and foundations were formed, this time within the legal framework of democratic laws. Their officials were "scattered" but they were able to carry on with their personal networking outside the party. Some of them really worked to establish an independent civil society, while others retained their political connections.

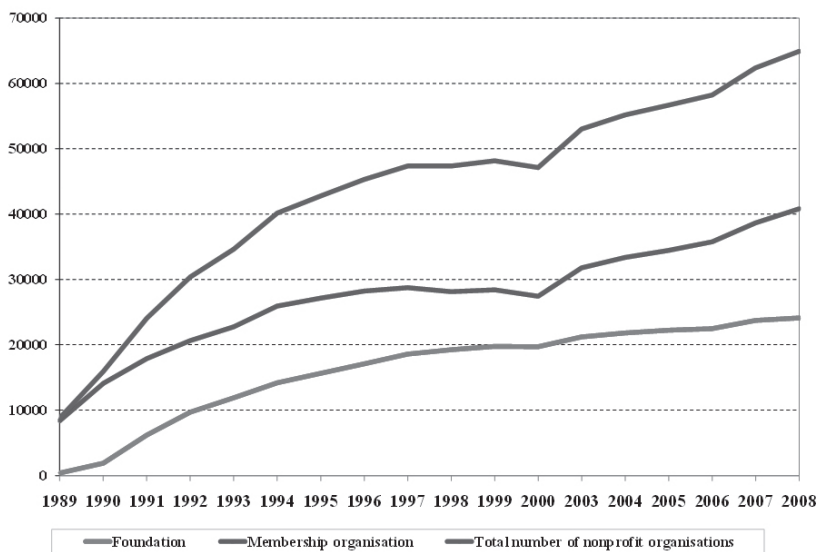
Figure 1. Non-profit organisations in breakdown of fields of activity, 2008

Source: Hungarian Central Statistical Office, 2010

After 40 years of state socialism which resulted in the forced abolition of civil society and the erosion of social capital, the self-organizing and representation patterns and conventions of society were not present in all sections of society. So, there were no opportunities for the various social groups to satisfy different social needs. We have to say that the fast economic and constitutional changes could not be followed by the development of the bourgeois society's civil culture. Most of the political elite and the active civilians of the post-communistic countries had been socialized in the old communistic system. Their expectations concerning paternalism, stability and the welfare state are still unbroken, they expect the maintenance of all those along the conditions of market economy, too.

As shown in the figure, the data clearly indicate that there was a highly extensive and continuously expanding sector until 1997.

However, the studies done by Central Statistical Office in 2000 marked a clear slowdown in the sector's development dynamics. It means that since 1997, the number of organizations has not actually changed.

Figure 2. The number of non-profit organisations between 1989 and 2008

Source: Hungarian Central Statistical Office, 2010

Moreover, 2000 was the first year when the size of the sector did not increase but actually decreased. Following the decline, or “flattening out” of the development tendency, again there has been a growth trend since 2003.

Hungarian non-profit organizations have nearly 4 million members, which, regardless that one person can be a member of several organizations, is a remarkable achievement in a country of 10 million.

In contrast, looking at the volunteers of non-profit organizations too, statistical data show that less than half a million people carried out such activity, which makes only 5 percent of the population over 14.

Low rate concerning civilian participation and low subjective competence can partly be explained by a tendency, experienced in other Eastern European countries too, indicating that the altered social and economic environment brings new challenges and demands to its citizens.

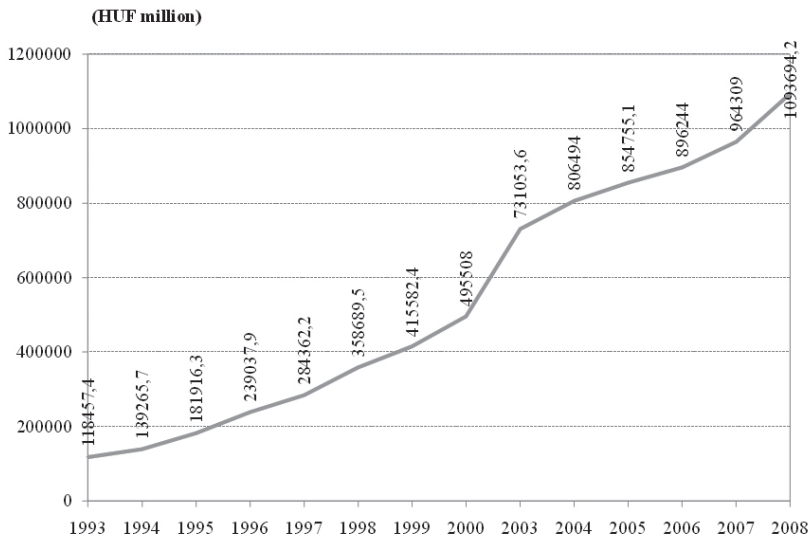
Besides the sector growth, we also need to consider the role the sector plays in employment. Affected by the transformation crisis and globalization, the state is continuously withdrawing from the fields of education, healthcare and social policy. Many expected that the “space” left empty will be increasingly filled in by a growing

non-governmental sector, together with other players (businesses, entrepreneurs), and thus will dominate the employment and public services. In Western European countries, the size of non-governmental sector is generally large. The rate of labour force it employs is 7.8 percent on average compared to economically active population. In three countries (Belgium, Ireland, and the Netherlands) this rate exceeds 10 percent.

Hungary does not differ much from Central and East European tendencies, since the non-profit sector can employ less than two percent of full-time employees and only 5 percent of the organisations are contracted to carry out public tasks.

In addition to their size, NGOs' economic indicators have also been rising dynamically in the past years, signalling the sector growing stronger. As shown in the following figure, the sector's income increased eightfold between 1993 and 2008. The annual income of the non-profit sector in 2008 was more than HUF 1000 billion, which appeared to be a huge sum, but it was actually less than 1 percent of the GDP.

Figure 3. The revenues of non-profit organisations, 1993-2008

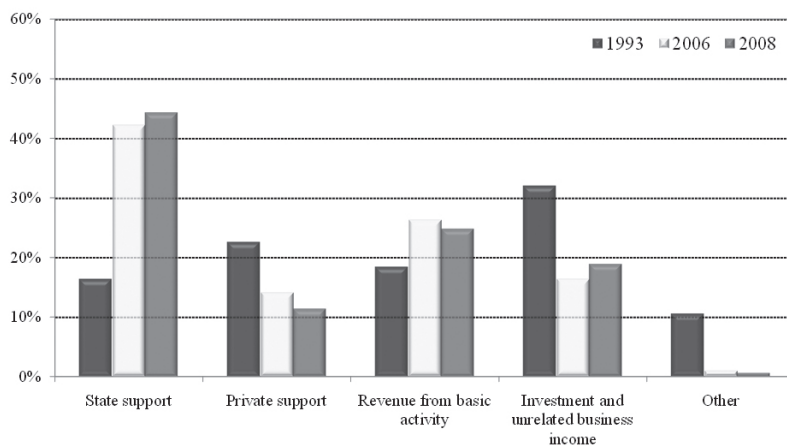


Source: Hungarian Central Statistical Office, 2010

The state contributes 42% to the non-profit sector's income, which is relatively low compared to nearly 60% of Western European contribution; however, it is regarded

high among former socialist countries. I should remark that perhaps the way of financing itself reveals the inherent distortions of the sector.

Figure 4. The allocation of revenues of non-profit organisations in breakdown of sources, 1993-2008



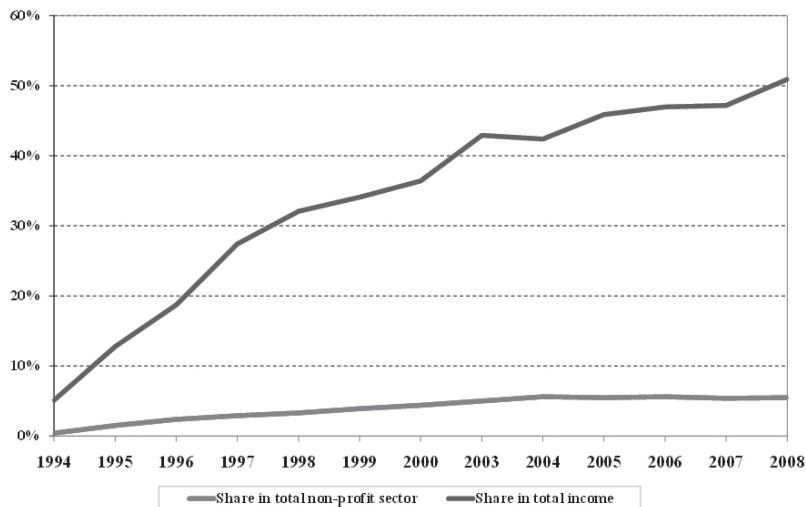
Source: Hungarian Central Statistical Office, 2010

From the mid-90's, partly taking advantage of legal possibilities, the government and the local councils were busy starting public foundations whose actual purpose was to distribute state subsidies among various fields and target groups (e.g. public education, sport, roma minority, needy university students, etc.), as well as to carry out prominent activities (mainly in research and teaching).

Within a few years' time, these big public foundations and public benefit companies operating mostly nationally or regionally "absorbed" a significant portion of the rather scarce central (state) subventions directed at the non-profit sector.

As shown in the following graph, the income of public benefit companies and public foundations set up by the state and local governments has been dynamically growing at the expense of other organisations. It all happened while the proportion of these two types of organisation within the whole NGO sector is basically insignificant.

Figure 5. Rate of income and sectoral weight of public of public foundations and public benefit companies, 1994-2008



Source: Hungarian Central Statistical Office, 2010

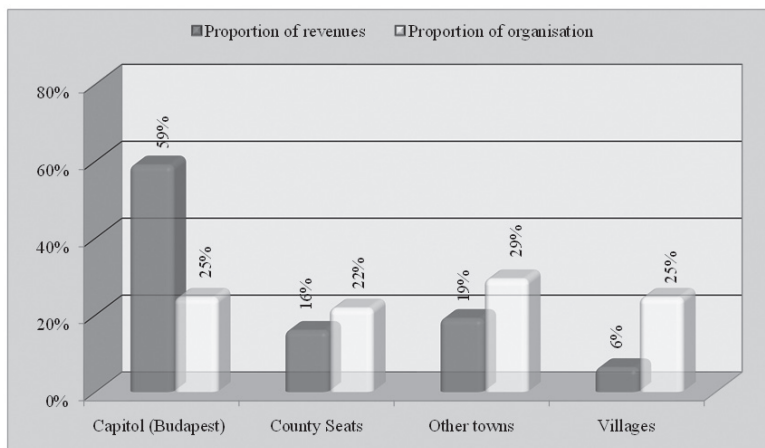
If we look at the distribution of state subsidies in 2008 only, we can see that public benefit companies and public foundations received more than 50 percent of the financial support.

This process reinforces the tendencies that in Hungary a “second” non-profit sphere is evolving (public foundations and public benefit companies)—which could also be called state or municipal non-profit—which are essentially not non-governmental organisations and handle not private but rather public assets.

For a number of different accounting, budgetary, taxing and organisational reasons this type of organisation has become increasingly popular with the state and the local governments as it is basically a disguised way for the state and local governments to finance themselves. This is because tax concessions are in fact savings for the public body assigned with the task and funded from the central budget.

I would like to mention another distorting effect, a so-called regional concentration of resources.

Figure 6. The division of the total amount of revenues within the non-profit branch and its organisations by the settlements types, 2008



Source: Hungarian Central Statistical Office, 2010

It means that nearly two-thirds of the income land at certain organisations in the capital city, while only less than a third of them are located there. This tendency forecasts a regional polarisation between “country and capital,” as well as a polarisation of resources between the “rich and poor”.

All this may result in the division or “duplication” of the Hungarian non-profit sector, where, on one side, we find “grassroots organizations” (mostly associations and private foundations). These constitute the majority, but due to scarce resources they struggle for their daily survival, which depends largely on their leaders’ skills and creativity. On the other side, we find a limited number of organisations with substantial resources (public foundations, public benefit companies), which are strongly connected (through contracts and subsidies) with the state and local governments or their institutions.

Due to all these reasons and circumstances, if I had to describe the Hungarian non-profit sector in a single sentence, I would say that its number and membership may be significant though, it is particularly weak in terms of resources and its role to accumulate social capital and to get involved in national and local political decision support and articulation of interests.

Summarizing we could say that the lack, the weakness and the declination of bourgeois and civilian traditions is the inheritance in Europe that makes positions of etatism easier after 20 years.

REGIONAL ECONOMIC POTENTIAL AND THE NON-PROFIT SECTOR

It has been ages since economists have been seeking an answer to the following question: why can a country be successful, or rather what the chances of a country are for catching up with the rest of the world? Edmund S. Phelps the 2006 winner of the Nobel Prize in economics tried to answer the question of how much cultural variables affect the growth of productivity, economic activity and employment (Phelps, 2006). He refers to the survey published in 2006 (World Values Survey) in which he divides cultural factors into two groups: individual and public cultural values. Individual values are civil and political freedom, the support of the participation of the individual in public decisions (elections) and its frequency, tolerance to words' non-conform behaviour, the freedom of self-determination and the expression of trust toward other people. Public factors consist of religion, emphasis on national feelings, the strength of authority and obedience, as well as family traditions. The results of the survey show the existence of homogeneous country-groups such as protestant Europe, where both the individual and public cultural values represent great opportunities for choice, Confucianist Far East, Anglo-Saxon and Latin world. A surprising result of the survey is that there are some "odd-ones-out" in some cultural groups regarding geographical locations. For example, Hungary does not show qualities, which characterise the western ex-communist Visegrad Group or the Baltic Group but it is closer to the Eastern and the Balkan² ex-communist nations. Maybe I was inspired by this so as to examine the influence of the economic environment on the number and situation of civil organizations regarding the interaction between economic parameters and non-profit organizations.

Comparing the situation of civil penetration with the economic indicators of Hungary of 2000 it can be concluded that *the indicators connected with the individual tax payer such as the number of tax payers, the sum of the basis of assessment and the sum of the tax are strong influencing factors. As regards the sum of GDP per capita and the quantity of foreign working capital the influence is less strong. The factors that*

² For example: Romania, Bulgaria, Montenegro, Albania, Moldova, Serbia, Latvia, Ukraine etc.

represent the general situation of enterprises such as the number of incorporated and non-incorporated businesses have a weak effect.

Considering the above-mentioned facts it can be stated that in 2000 the civil sector was mostly dependent on civil conditions besides state supports and the income off enterprises. The situation of the organizations was primarily influenced by how intensively citizens joined the activities of the non-profit organizations and their finances. Moreover, it is important to the state that the effect of the economic sphere has appeared since then. However, it has not been initiated by local enterprises but it has been the result of foreign and multinational businesses.

Foreign companies are paying attention to taking social responsibility all over the world, i.e. they are investing a part of their profits to socially useful purposes. It is very often realised as the support of civil sphere. Multinational companies have introduced this practice in their Hungarian branches and its result is that in 2000 the effect of foreign companies on civil organizations was larger than that of Hungarian businesses. On the other hand, we cannot forget about the fact that these companies were in a much better economic situation than the Hungarian ones, therefore, it was easier for them to donate financial resources for social purposes.

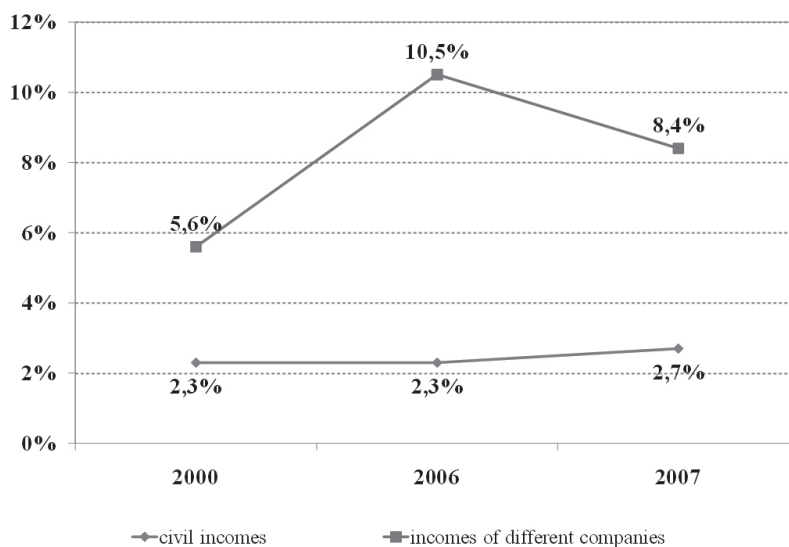
The geographical location of civil organizations also supports these statements. *The number of civil organizations per 1,000 persons is higher in the regions (especially in the western regions of the country) where the income of the population is higher than the average and where a great number of foreign companies have settled down.*

The millenary brought about important changes in the Hungarian society and they affected civil organizations in general, as well. In 2006 there was considerable change regarding the relationship between economic conditions and the situation of civil organizations. Population factors are still affecting the situation of the organizations; however, the influence of both international and local companies can be seen strongly. By 2006 the non-profit organizations were supported by every non-state actor, consequently the sector was given significant resources by citizens, local and international businesses.

The regional characteristics did not change between 2000 and 2006: *the number of civil organizations per 1,000 persons was still higher in the regions (especially in the western regions and in the Central Region of the country) where the income of the population is higher than the average and where a great number of foreign companies have settled down* (Kákai, 2009).

It is worth examining what position these above-mentioned resources take up in the income structure of civil organizations nationally, and regionally. If we compare the proportion of supports made by citizens and different companies as part of the whole income, we can see that while the proportion of incomes coming from civil resources is the same, the proportion of company resources has changed considerably. At the same time the graph shows that while civil incomes rose slightly between 2006 and 2007 company incomes dropped significantly by more than two percent.

Figure 7. The proportion of the civil and company incomes in the whole income of organizations *(2000, 2006, 2007)



* Calculated from KSH 2007 non-profit database

The decrease can explain the fact that the first symptoms of the economic crisis were already seen in the data of 2007. Economists agree that the first effects appeared in 2007. Probably it means that the first effects were felt by the Hungarian enterprise sector although this period was not regarded as a crisis, and it started to rationalize its expenses. This rationalization probably started with cutting down expenses, which were not essential parts of the operation of a company, e.g. the support of civil organizations. This scenario seems likely because the pattern of changes does not look homogenous, i.e. it does not mean that companies in a general sense spent less on the

support of civil organizations, but it means that companies of particular regions or those of a particular sector spent less on this purpose.

If we examine the regional level we will find the same trends. The proportion of incomes from civil sources between 2000 and 2006 remained the same in almost all regions. The only exception to this is the region of Northern Hungary, where the quota from this source dropped from 3.1 percent to 2.4 percent.

Figure 8. The Regions of Hungary



The proportion of enterprise incomes from different sources, however, increased significantly in almost all regions except for the region of Central Transdanubia and the region of the Northern Great (Hungarian) Plain. The quota of incomes coming from enterprises remained unchanged in these areas.

The quota of incomes coming from different companies was considerably higher in 2000 in the Central Region and in the region of Central Transdanubia than the national average. By 2006 this changed a bit, the region of Central Transdanubia showed only average results while in the region of the Southern Great (Hungarian) Plain they were above the average.

The quota of incomes coming from companies especially in the region of West Pannonia and in the region of the Southern Great Plain decreased in 2007, which can be interpreted as a symptom of the economic crisis. It was partly verified by analyses

conducted since the start of the economic crisis according to which the greatest economic decline was observed in the regions that were prospering economically. In the last 10-15 years export-oriented multinational companies specialising in processing industry in the North-West of Transdanubia and their delivery partners had to decrease their production, dismiss some of their employees or stop their activities in 2009. On the other hand, it seems that some regions were not affected, these were badly-developed outlying districts along the north-eastern and the southern borders of the country and some regions in the Great Plain and the south of Transdanubia which do not have bigger towns or cities.³ These data support the results of economic geography examinations, which deal with the development of local regions which is changing in time (in different periods) and which is moving between extreme values. The bottom line of the process is that the regions which were more developed economically than the average (such as Central Region, the regions of Central Transdanubia and West Pannonia) were developing faster, while the ones which were worse-developed economically than the average (such as the regions of Southern Transdanubia and the Southern Great Plain) were developing but their development was far from the average. The development of the regions of Northern Hungary and the Northern Great (Hungarian) Plain fit the national trend more or less (Pitti, 2008: 55). The economic crisis changed this at the expense of the previously developed regions. Consequently the crisis itself results in the decrease in the regional inequality of development, which can be regarded desirable in itself, however, it is due to the regression of more developed regions and it is not related to the fact that the less developed regions and areas are becoming richer. A further intensification of continuously appearing differences can be expected in the relation of the capital city and the country (Lőcsei, 2009).

IDENTITY IN SOUTHERN TRANSDANUBIA

In the last part of the paper, I am going to deal with a less visible and measurable aspect of success, which can simply be called identity. To start from a bit distant statement, we can assume that in our world of globalization it is more important than ever for everyone to be able to determine themselves. As a result of this, it can be seen that people return to their identity originating from their history and nationality. The county and regional identity (especially the latter) has been gaining importance

³ As there has not been industrial production capacity.

recently as a consequence of the regional policy of the European Union, the deepening of the integration, and wider and other important factors.

In Hungary regionalism did not have its traditions. Due to the lack of historical and cultural traditions and institutional frames, its establishment seems to be hard work. Moreover, the regionalization of ethnical, religious and cultural differences, which is built on traditions, can cause several problems (A. Gergely, 1996, 1998). Therefore, the forms of the manifestation of local identity can be examined at the level of settlements and counties.

There have been very few researches in Hungary in which the local, regional, or national identity of the leaders of civil organizations has been examined. This question is seemingly evident if we take into consideration the “dry” statistical data that more than half of the organizations perform their activities in their own settlements, and only a quarter of them are linked with local and regional categories (Nagy – Sebestény – Szabó, 2009). Consequently, these organizations identify themselves as local ones. Identity is no longer thought of as a system of relationships which is built on traditions and emotional elements as a result of the continually changing and developing processes of local, national and international spaces. Identity can be defined as a process of modernization, as a conscious reply to how to deal with and substitute the appearance of a direct spatial identity (Ipsen, 1993). The identity that is aimed at larger spatial categories is regarded important so that migration can be stopped and local investment opportunities, cultural and social activity can be encouraged. Nowadays the competition for European Union resources and investments is also based on regional identity. This utilitarian approach does not exclude the socio-psychological and political side of regional identity, which can be positive and negative relationship of the local society and the political élite to space. It means that this relationship is active dynamic; it can be established and destroyed at to the same time (Szabó-Kovács, 2006: 407).

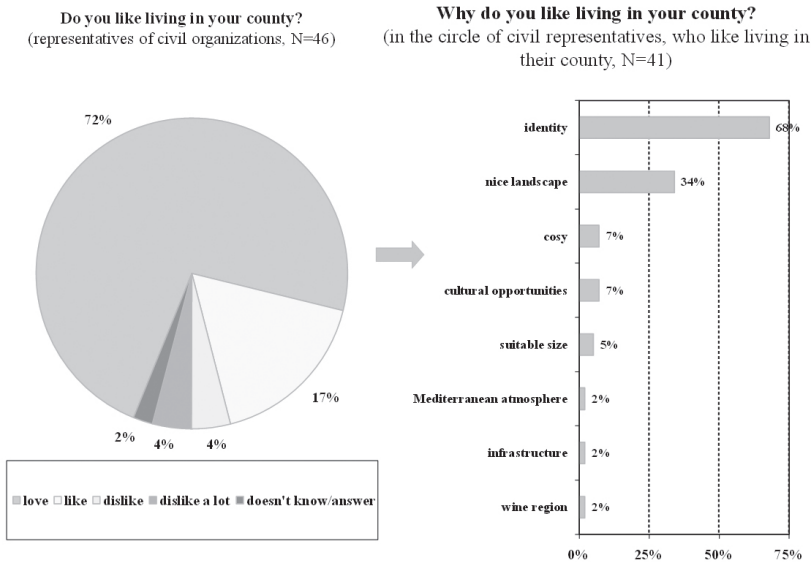
Identity—as Manuel Castells defined it—is primarily a cultural phenomenon which may have several bases such as legitimatization identity which is created by the elite so that they can certify their own views, or which is based on firm basic principles e.g. marginalized nations such as the Palestinians. Another form of identity can be projectional which presupposes strengths and vigour, is open to changes and ready to project itself on other groups as well (Castells, 2006: 74).

The results of our survey which was based on interviewing the leaders of civil organizations of three counties in Southern Transdanubia support the identity-

generating effects or the above-mentioned factors, *in other words settlements show relatively weak identification regarding the greater geographical space.*

Most of the leaders of the civil organizations like living in their home county. Only 8 percent have negative feelings to words their place of living.

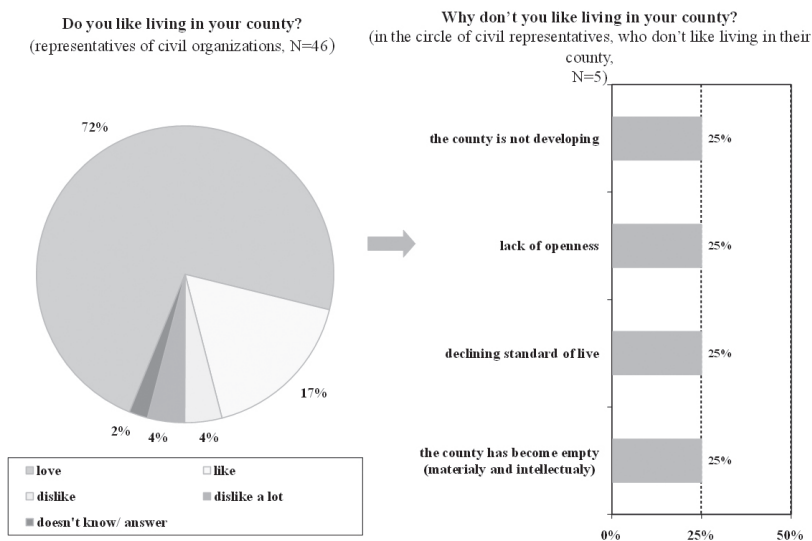
Figure 9. Regional identity



Its background relates to the fact that most of them *show a high level of local identity*. Another important factor is the nice landscape as well. The ones who dislike their home county mention economic reasons in the first place (e.g. lack of development, declining of standard of living), although the lack of openness and the migration of the inhabitants also are mentioned among the reasons.

Although this effect is indirect and has not been proved empirically, these data allow us to draw the following conclusion: after the change of the regime local identity became stronger, the county, however, lost its previous attraction. Regarding the regional and county identity, considerable changes took place in a relatively short period (in several years) in favour of the settlements, which can be interpreted as the consequence of division of authority within the local government according to Antal Bóhm (Bóhm, 2000).

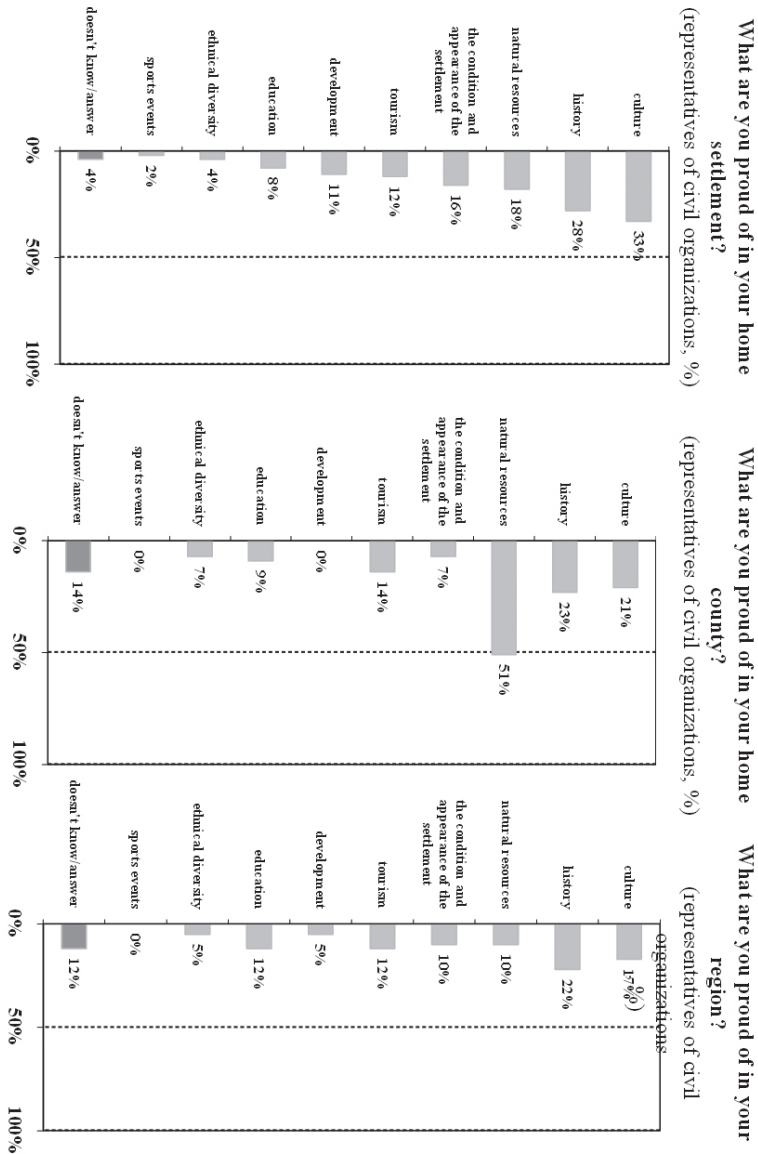
Figure 10. Regional identity



The civil representatives who were asked about their identity regarding their settlement are mostly proud of their culture, historical traditions, natural resources, state of their settlement, its tourism and development. Regarding their county, its natural resources seem to have the highest value and the above-mentioned factors are not mentioned so often. In the case of the region there are not any factors that can be considered outstanding: all the factors are more or less mentioned in the same a proportion, which supports the fact that *the region as a factor generating identity is missing from the inhabitants' consciousness*.

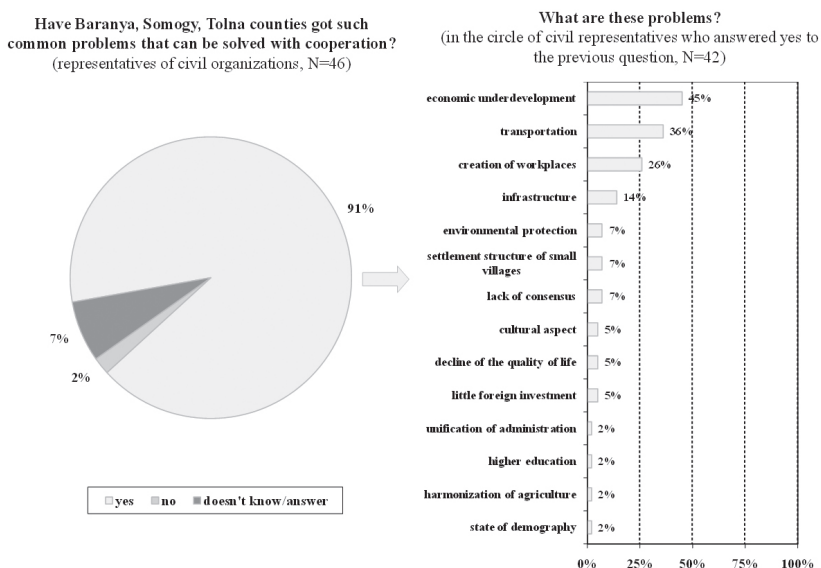
In connection with this, a question can be asked: how can regional identity be established more successfully, (*from the bottom or from the top*)? Upwards or downwards (with the help of social initiative or politics and institutions)? Essentially this is a problem of cause and effect since it is not sure whether the establishment and development of regional identity advances from civil society to a political level (the government, local governments and their institutions), or vice-versa, i.e. the level of confidence of individuals and organizations and through this their identity can become lower or higher thanks to a certain government or local government institution.

Figure 11. Regional identity



As I have already stated, the region appears in the way of thinking of the leaders of the organizations to the lower extent, however, it does not prevent them from being able to mention problems, which can only be dealt with in a larger space category. As a matter of fact, each leader of a civil organization is aware of the fact that the region has such problems that could be solved with the cooperation of the three counties. Economic underdevelopment as regarded to be the biggest difficulty. Other problems of significance can be transportation, the creation of workplaces and infrastructure.

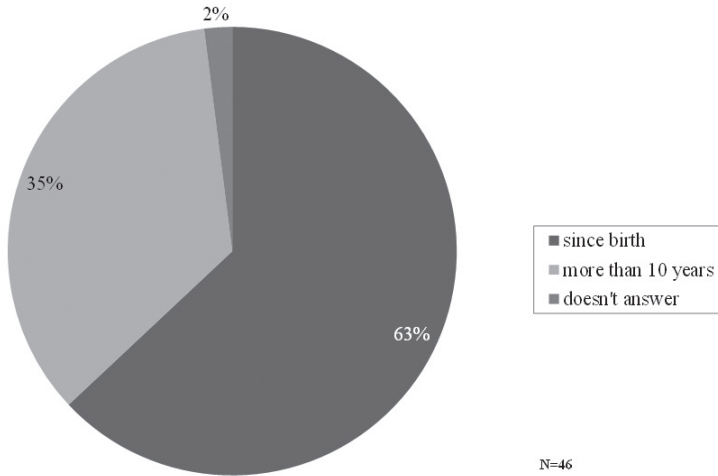
Figure 12. Regional identity



The most important purpose of development in the region is the development of tourism, economy, transportation, road network, human resources and infrastructure. Most of the representatives taking part in the survey only mentioned tourism, thermal water and other natural resources as utilizable “treasures”. It can seem surprising that more than one tenth of the organizations could not name a resource which could be utilized by the three counties together.

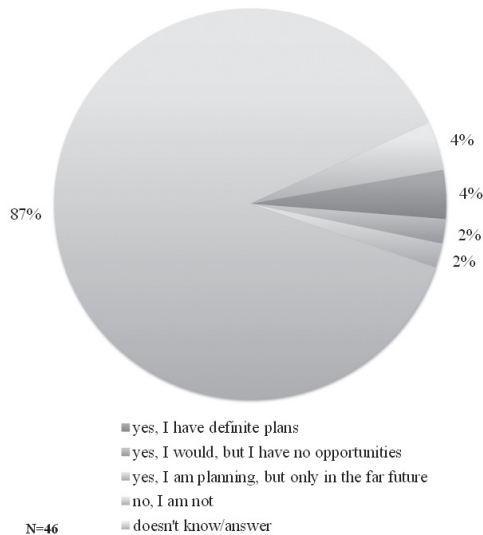
From the point of view of identity the existence or lack of settlement identity can be another essential fact. Almost two-thirds of the representatives have been living in their home county since they were born, the rest moved there in the last 10 years.

Figure 13. Mobility: How long have you been living in your county? (representatives of civil organizations, %)



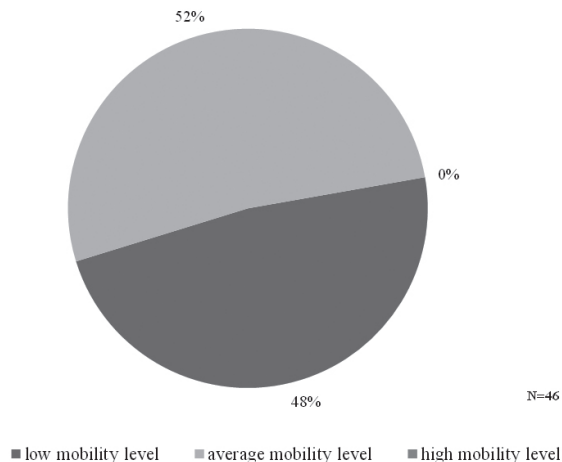
Almost each of them is loyal to their present home settlement and only 8 percent are planning to move.

Figure 14. Are you planning to move from your present home settlement in the near future (1-2 years)? (representatives of civil organizations, %)



We were also interested in how mobile the leaders of the organizations in the region are in regards of official visits.⁴

Figure 15. Mobility groups (representatives of civil organizations, %)



All this emphasises again the local identity of civil organizations since their cases are mostly conducted in this space category. On the other hand, within this space category they are considerably known as the actors of work-relationships because in this respect the leaders of civil organizations are the third after mayors and university leaders.

CONCLUSION

The research has shown that although county identity has a rather weak political and sociological basis, it is probably the only identity, which can be found. The survival of the county as a geographical unit is not the result of the national county policy but it is due to the fact that the state, society and economy, especially service institutions are still organized in county units within the borders of a county. Thanks to this fact the everyday mobility scope of the elite of the region is much narrower and is defined by the county unit. All this means the following: if the institutions, the political representative mechanisms do not operate in a regional unit it is difficult for the

⁴ Mobility was examined on various levels such as visits in their home county, their home region, other regions, the capital city and abroad.

individuals and their communities of the region to create a relationship or a project. Looking back on Castells' definitions of identity it can be stated that in this region we cannot find either projectional identity or identity based on firm principles, however, the elements of legitimization identity can be felt.

A part of county-consciousness which can still be felt is scarcely linked with the narrow political and administration elite of the county among the inhabitants. This elite is divided and because they lack real networks they are not able to represent county interests (Szabó –Kovács, 2006: 409) but because they lack traditions and institutions as well, the chance of establishing regional identity is even lower since it will be hard to build regional identity on the ruins of county identity (Pálné, 2000).

In my opinion, civil society can only become civil mentality in Hungary and other post-communistic countries if it gets rid of the effects of post-communistic etatism. To achieve this, individual initiation and undertaking of pluralism is needed as a real civil basis. The 'civils' are the citizens, and civil organizations are the free associations of the citizens, who carry out public tasks voluntarily. After the end of communism, therefore, civil society has to keep a distance from the trends of 'paternalistic, democratic despotism', and, they have to contrast it with the spirit of autonomy, solidarity and creativity.

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Chapter III

Education, languages, policy challenges

