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The capacity and potentials of Budapest to attract creative economy

Egedy, Tamás[1]–Kovács, Zoltán[1]

Abstract

The triggering factors of urban development have changed continuously over the past decades, always adapting themselves to the processes of globalisation and to the related trends. As a consequence of the shift from the Fordist production system to the post-Fordist economic structures the metropolitan regions have acquired an ever growing importance and became the centres of economic and social development of countries and regions. International experience shows that in economic competition an increasing role is played by creativity (and particularly by culture), invention and innovation. Concerning further development of the European metropolitan regions it might be decisive how these city-regions will be able to attract and integrate firms in the sphere of the creative knowledge sector and their manpower. Regarding to the new economic development tendencies drawn above this paper highlights the capacity and potentials of the Budapest Metropolitan Region based on statistical analyses and results of empirical questionnaire surveys and in-depth interviews carried out amongst employees, managers and transnational migrants working in the creative knowledge sector.

Keywords: creative knowledge sector, innovation, ACRE project, Budapest Metropolitan Region, soft and hard factors, decision on settlement

Introduction

Creativity, knowledge and innovation are broadly recognised as the essential ingredients of economic success in the advanced capitalist world. Naturally, they have always been important to economic progress, but their importance has never seemed as crucial as in the early 21st century. Creative and knowledge-intensive industries are increasingly seen as the most important economic activities for international competitiveness in the advanced capitalist world. Still, what exactly makes some city-regions more attractive locations for these industries and their workers is not entirely clear (Scott, A. 2003; Florida, R.–Tinagli, 2004; Musterd, S. *et al.* 2007).

[1] Geographical Research Institute, Hungarian Academy of Sciences. H-1112 Budapest, Budaörsi út 45. E-mail: ege6727@mail.iif.hu, zkovacs@helka.iif.hu

In October 2006 the ACRE project (*Accommodating Creative Knowledge – Competitiveness of European Metropolitan Regions within the Enlarged Union*) financed by FP6 of the European Union was started to improve the empirical evidence base of urban regional conditions for creative knowledge. In this project the international consortium aims to assess the impact of the emerging 'creative class' and the rise of the 'creative industries' on the competitiveness of EU metropolitan regions. The project compares the recent socio-economic development trends and economic development strategies in 13 metropolitan regions across Europe to get more insight in the extent to which creativity, knowledge and innovation are indeed the keys to a successful long-term economic development *(Fig. 1).*

The central research questions that the project wants to address are: What are the conditions for creating or stimulating 'creative knowledge regions' in the context of the extended European Union? More particularly, what is the role of so-called 'soft' factors in creating and stimulating 'creative knowledge regions'? The most important topic to consider is which metropolitan regions might develop as 'creative knowledge regions', and which regions might not (Chapain, C. *et al.* 2009).

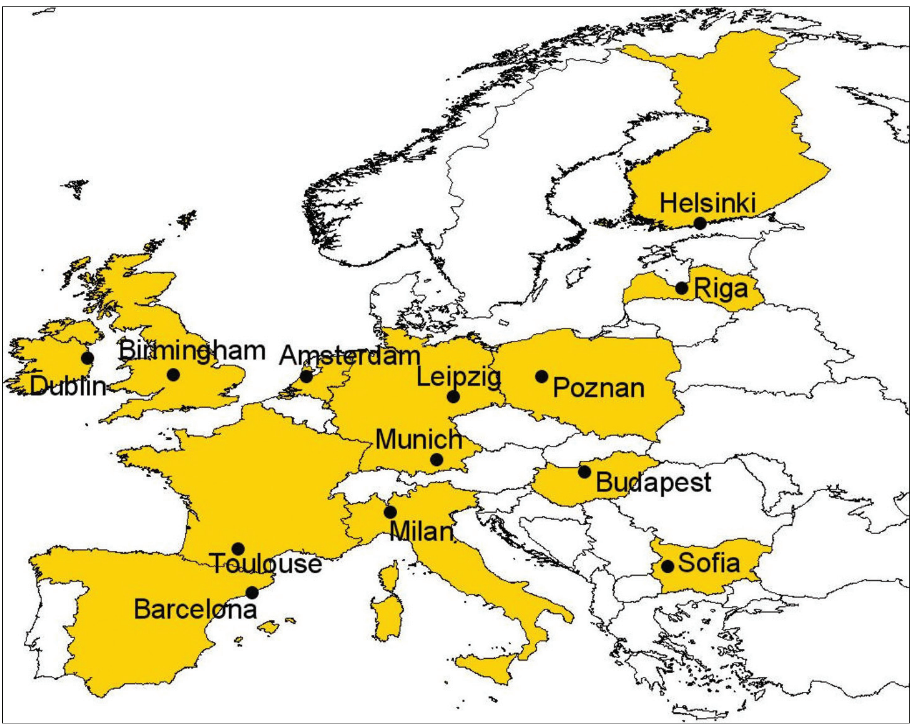

Figure 1. Participants of ACRE project

The project is based on empirical research carried out in the partner cities. These empirical studies in the framework of ACRE project could be subdivided into three stages. In the first stage a quantitative questionnaire survey (200 questionnaires in each metropolitan region) was carried out to investigate the opinion of highly skilled graduates and workers in creative and knowledge-intensive industries about their living and working conditions and to explore the role that both 'hard' and 'soft' location factors play in decisions taken by workers and graduates to live in a particular location in the region. In the second stage qualitative in-depth interviews (25 interviews in each city) were conducted with leaders, managers of firms to understand the drivers behind the decisions of the managers of selected knowledge-intensive and creative sub-sectors to settle at a certain location in the metropolitan region and to estimate the relative importance of the location factors that played a role in their decision making process. The third stage also comprises in-depth interviewing of international migrants actively working in the creative knowledge sector (25 interviews in each city). The object of this phase of the survey was to recognise and to investigate the drivers behind the decisions of expats to settle at a certain location and at the same time to estimate the relative importance of the location factors that played a role in their decision.

Based on the empirical survey and interviews comparative analyses will be provided on the metropolitan level of Europe. The present paper summarises the most relevant results of local analyses carried out in the Budapest Metropolitan Region (BMR).

The role of creative economy in Budapest

The economic output of the Budapest Metropolitan Region has always been dominant within Hungary. Nowadays the BMR is the economically most advanced region of the country. In 2004 44.5% of the GDP was produced in the Central Hungarian Region and 35% in Budapest itself. In terms of output and employment the top five branches are: chemical industry, machinery, food processing, woodworking and publishing. Within services the financial sector has been developing most intensely, other innovative economic branches in Budapest are info-communication technologies, life sciences (medicine production, biotechnology and nanotechnology), creative industries and cultural economy (Egedy, Z.–Kovács, Z. 2008).

According to the definition of ACRE consortium on creative economy at the end of 2004 there were 264 thousand active economic organisations in Hungary operating in the field of *creative industries* and *knowledge-intensive industries*, which made up 36.4% of the active economic organisations registered in the country. Within the creative knowledge sector the proportion of creative industries was 57% with 150,331 organisations, whereas the knowledge-intensive industries represented 43%. Within the knowledge-intensive industries the weight of law and other business services was outstanding with 70,115 active economic organisations (62% of the firms within the sector).

It is also important to analyse the relative weight of economic organisations of the creative knowledge sector within the local economy. Firms in the creative knowledge sector make up 44% of the active economic organisations registered in the BMR and 46.1% in Budapest proper. Within the creative knowledge sector the weight of BMR is outstanding in the fields of ICT (53.6%), R&D and higher education (52.4%). According to *Table 1.* BMR and Budapest play an outstanding role in Hungary both with respect to employment and revenues; with 39.1% of all employees working and 53.2% of the revenues realised here in 2004. As a general trend it can be stated that the weight of BMR in the creative knowledge sector is even higher. The greatest extremes could be found in finances, only 27.4% of firms in this branch are located in the BMR, nevertheless 66.5% of employees are working here, and 91% of total revenues are realised here.

Table 1. The importance of BMR in the creative knowledge sector in Hungary (%)

Industries	Enterprises	Employees	Revenues
Creative industries	43.3	44.8	62.3
ICT	53.6	46.7	43.1
Finances	27.4	66.5	91.2
Law and business	41.9	53.0	66.6
R&D, higher education	52.4	48.7	77.5
Creative knowledge sector	*42.3*	*49.0*	*58.4*
Total	35.0	39.1	53.2

Examining the agglomeration zone we can also discover significant differences as far as the distribution of creative firms is concerned. Within the agglomeration the relative weight of firms operating in the creative knowledge sector is the highest in the north-western sector of Buda (41.8%), and the lowest in the south-eastern sector of Pest (30.2%). The highest proportions of creative firms are registered in the settlements of the north-western sector (Csobánka 52.1%, Nagykovácsi 49.9%, Telki 48.1% and Budakeszi 47.9%), on the other hand the lowest figures can be found in the south and south-east (Alsónémedi 23.3%, Ócsa 23.4%).

Also essential geographical differences can be detected within Budapest. Districts of the Buda side show up higher proportions with regards to the relative share of creative firms (12th District 55.3%, 1st District 54.2%, 2nd District 54.0% whereas the number and share of creative knowledge sector is generally lower in the south-eastern districts of the Pest side *(Fig. 2)*.

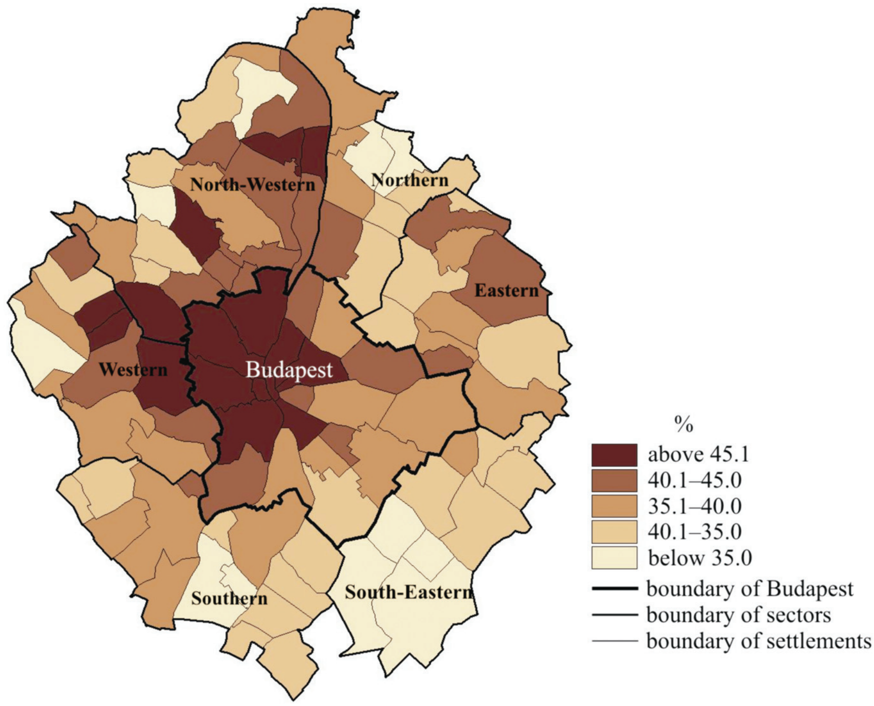

Figure 2. The ratio of creative and knowledge-intensive enterprises in the BMR. *Source:* CSO Hungary, 2004

Budapest as a living space for creative employees

Data of the 2001 national census reveal the main features of spatial distribution of labour force in the creative knowledge sector in Hungary and in the Budapest Metropolitan Region. To the most important group of occupations, where the role of BMR is outstanding, belongs the category 'market research, advertising and marketing'. Two-thirds of the 14 thousand employees working in this field in Hungary live in the BMR and 73% of them work here *(Fig. 3).*

BMR has equally high shares in art (9,000 employees) and performing arts (6,000 employees), 72% and 68% of people working in these sectors in Hungary live and work in the BMR *(Figs 5* and *6).* There were 3,000 journalists and editors in the publishing sector in Hungary in 2001, 74% of them lived in the BMR. In addition to these occupations the share of BMR is also high in the electronic media (Radio and TV). We should also note that in all sectors of the creative industries a major part (from 57% to 68%) of the high rank managers and professionals live and work in the BMR.

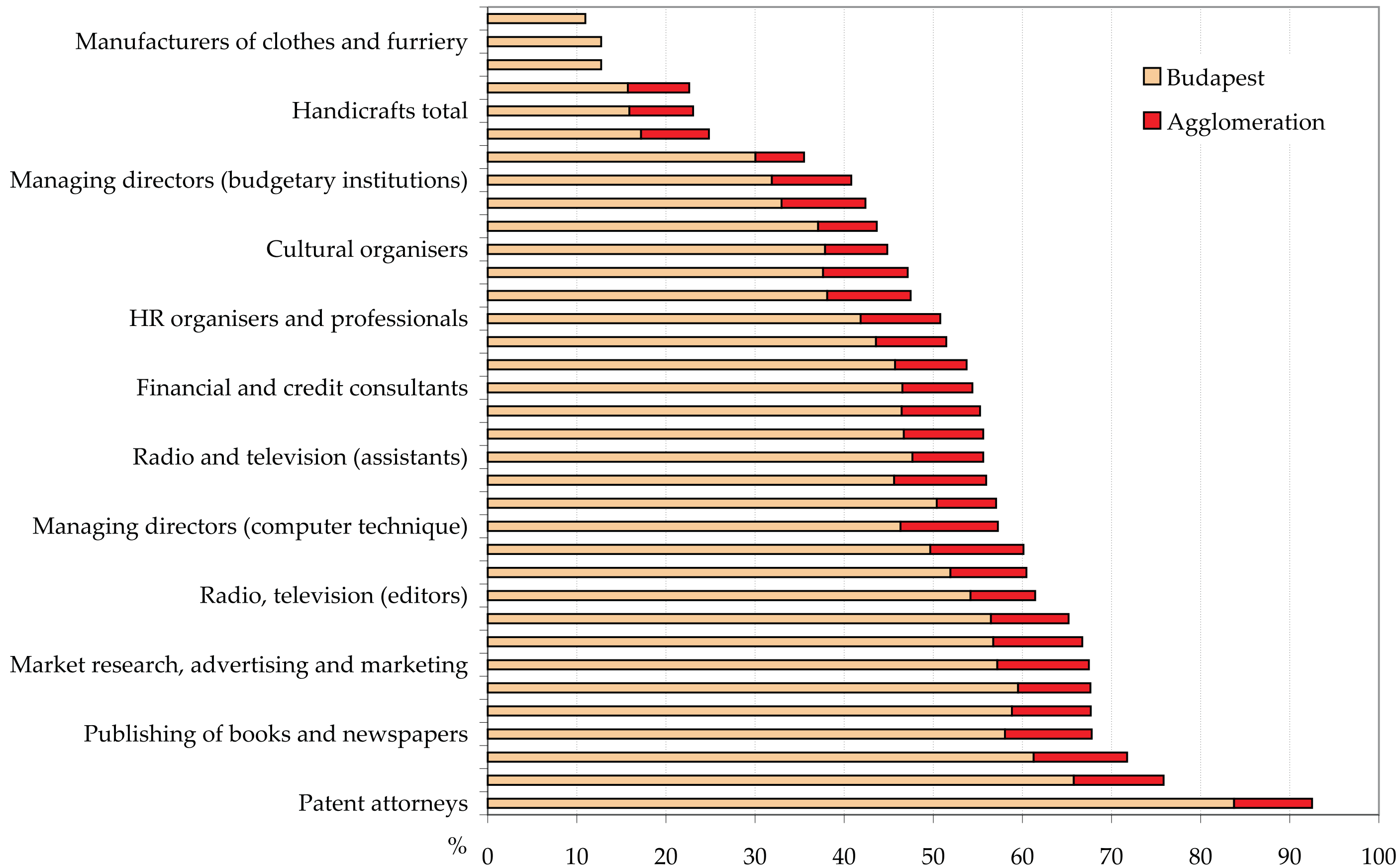

Figure 3. Ratio of creative employees living in the BMR. *Source:* CSO Hungary, Census 2001

Budapest in view of creative professionals

After our results became evaluated it had become clearly established that in the course of the analyses of the hard, soft and personal factors distinction has to be made between the macro (global) and micro (local) levels. Macro level is meant to be the general motivations of the interviewee to come and stay in Budapest and/or BMR whereas micro level encompass factors having been decisive for the choice of the place of residence and site selection within the metropolitan region.

Motivations to come to Budapest

Our investigations have shown that the resettlement of creatives as international migrants from abroad to Hungary and Budapest had been primarily determined by hard factors: the main trigger was the intention either to *undertake work* or to *pursue studies* in higher education. In this respect no particular difference could be identified between the members of the creative and knowledge-intensive groups.

Similar to the international migrants, Hungarian employees predominantly came to Budapest in order to undertake jobs. As a motivation factor of a nearly similar importance, another goal was to pursue studies in higher education (in colleges or universities). When founding a firm market conditions was the foremost consideration: Budapest represents an enormous economic potential relative to that of the whole country and this exert a great attraction upon the economic units. Creative firms settled in the BMR are primarily due to the *size of the market and of labour market*. A high number of entrepreneurships and a well trained manpower is not a negligible factor of site selection either. The moving in of the creative firms and settling down of the managers are mainly determined by hard factors as well. Another motivation factor already belongs to the soft ones: according to the unanimous opinion of the managers, *informal links* play a decisive part in Hungarian economy therefore enterprises might profit a lot from their presence in the capital. Moreover here they have an access to legal, financial, commercial, logistic *services* of high standard.

Summing up our achievements of the analyses performed on the macro level it can be stated that workers and graduates employed in creative economy, managers and enterprises, and transnational migrants arriving in Hungary and Budapest are attracted by the economic advantages offered by the BMR: employees favour *job opportunities* of broad range and undertake different kinds of labour as employers do for the same reason, notably by the *favourable labour market conditions*. For the latter the large market (enterprises, clients) is part of the strongest attractions. The second greatest attraction is the use of *education and training*, being important because settling down is a general trend, so higher education of prominent quality raises the economic potential of the BMR. The third is the personal and soft factors changing by target groups when transnational migrants take decisions on an emotional basis (they followed their partner, or the metropolis appealed to them), while the managers tend to consider economic factors (e.g. informal links, availability of services). It can be stated that motivation and attraction factors on the macro level for the creative and knowledge-intensive professionals do not differ from those for the people employed in the other sectors of the economy.

Table 2. Role of factors in choosing the current dwelling place (whole sample, n=203)

Factors	Very important	Quite important	Somewhat important	Not important	Don't know	Missing
Cost of dwelling	33.5	40.5	11.0	6.0	3.5	5.5
Quality of surrounding neighbourhood	33.5	38.0	16.0	4.0	2.5	6.0
The neighbourhood atmosphere	28.0	39.5	19.5	5.5	3.0	4.5
Size of dwelling	23.5	48.0	13.5	6.5	3.5	5.0
Proximity to public transport	19.5	44.5	20.5	9.0	2.0	4.5

Why to stay and settle down in Budapest?

Based on the micro level analyses no differences could be recognised as to the factors decisive for the settling down of professionals working in creative vs knowledge-intensive sectors. The most important motivation factors are the *cost of dwelling*, the *size of the residence* and *proximity to public transport* as hard factors *(Table 2).* They are not only attracting but also retaining factors i.e. they are determinant for moving of the creatives to a certain neighbourhood but also for their staying there longer.

Following the above determinant hard factors several soft factors are to be considered before decision is made. Of them the *quality and atmosphere of the neighbourhood* is to be mentioned in the first place. In the scale of values this was mentioned by the employees as a factor examined just after dwelling and public transport. Proximity to the place of work was referred to as a pull factor by the creatives, whereas high traffic and noise pollution evaluated as a push factor. For a longer perspective *personal safety and public security*, access to commercial facilities and the quality of life offered by the neighbourhood that are primary retaining factors.

From the analyses of cross-tables on the choice of residence the conclusion can be drawn that young people tend to make their choice along the hard factors (in pursuit of studies in Budapest, seeking for job), whereas soft factors (e.g. proximity to natural environment) appear as preference for the middle-age and older generations.

The employers and managers primarily consider hard factors in the course of site selection. The leading aspects are the *price of office*, the *size and infrastructure of office*, further the *accessibility i.e. connection both to traffic lines and public transport*. For certain creative firms the presence in Budapest is important because it is a prerequisite to applying for subsidies and allowances. An accentuated importance has the *place of residence* of the managerial strata (in inverse ratio to the size of the firm) which also emerges in the process of choosing the site of the firm's headquarters. Soft factors come to the fore in the second round, especially the office's neighbourhood: the managers of creative firms favour prestige aspects, whereas those of knowledge-intensive enterprises prefer the quiet and calm surroundings. Among the soft factors *informal links* and *good services* are equally attracting factors (macro level) and retaining factors (micro level) for the creative firms. There is no doubt that personal trajectories have some part to play in the decision making process concerning settlement: *family and friends* can play both of these roles.

Strengths and weaknesses of the Budapest Metropolitan Region

Summarising the results on the *strengths of Budapest* three groups of location factors were judged equally and very positively in each of the three target groups: a) Job offers and career opportunities; b) Cultural life and leisure, sport and entertainment opportunities; c) Services, retailing and shopping networks and gastronomy. The first group belongs to the hard factors, whereas the second and third categories can be evaluated as soft factors.

Apart from the above mentioned groups there are factors that have less importance but strengthen the position of Budapest. The capital is an undisputed leader in the country's higher education, and the level of training is highly appreciated among specialists from Hungary and abroad.

Job and career opportunities are strong attractions of the BMR. They are supported with favourable working conditions: by the Hungarian and foreign employees the enterprises and institutions as a rule provide more sophisticated working facilities than their counterparts in the countryside.

The issue of subsidies and allowances belong to the hard factors. It is well known that there exists an extensive social network in Hungary, i.e. a system of state subsidies and social allowances, involving high expenditures thus imposing a heavy burden upon the economic performance of the country, which extend beyond its capability. It is not accidental that the respondents (chiefly transnational migrants and managerial strata) based on financial considerations of their own, highly appreciated this system of subsidies and allowances (Egedy, T. *et al.* 2009).

Residential environment is also to be mentioned among the soft factors; it means that most diverse quarters of high standards and quality are evaluated as the strong points of Budapest. This great variety of the neighbourhoods is ready to meet the demands of all social strata. Of the soft factors there are two advantages of the BMR: a fine geographical setting which is praised especially by the transnational migrants and managers and the cultural milieu typical of the city. The latter is closely related with a rich choice of cultural programmes *(Table 3).*

There are few hard and soft factors that should be mentioned among the *weaknesses of Budapest.* The former is the Hungarian system of taxation judged very negatively both by the employers and transnational migrants. Although there were attempts to reform the system in the recent years, these have proven to be unsuccessful or inefficient. Therefore Budapest is in a loser position in the economic competition because tax bands and high tax payments appear as push factors: they curb the inflow and settlement of professionals and firms. There are four further factors that weaken Budapest's position in the domestic and international competition of cities even though to a lesser extent than those two mentioned above. Of the hard factors high living costs should be referred to. All the three target groups expressed their view that price of living and especially everyday expenses are very high in comparison with the level of income. Other weak points of Budapest are the lack of tolerance and acceptance of diversity and the missing openness. A surprisingly high level of intolerance (contrary to all expectations) in most places of the BMR was one of the findings of previous surveys. In relation with this issue employees hold that solidarity, social cohesion and equity are problematic, not only in the BMR but all over Hungary. A closely related question is that in the opinion of the respondents there is a very low level of the political culture in Hungary, and the situation is further corroborated by an overwhelming over-administration and bureaucracy.

Among the negative soft factors the indicators typical of big cities: pollution, uncleanness and noise are often referred to. High traffic and the noise generated add to the deterioration of quality of life. The uncleanness and neglected state of the districts, quarters and streets complained about by the respondents can be attributed to an inferior level of environmental consciousness among the local population. It is not surprising in this sense that almost half of the respondents from both investigated sectors voiced their stance about the deteriorating quality of life in Budapest over the past years (*Fig. 4).*

A bulk of hard and soft factors can be observed which exert a negative impact upon the quality of life and satisfaction of people in the BMR being also decisive for the further development of the Hungarian capital and its

Table 3. SWOT analysis of the Budapest Metropolitan Region based on the opinions of creative managers

Strengths	**Weaknesses**
Weight and role of BMR in the national economy Favourable positions in the creative knowledge sector Geographical location of Budapest Higher standard cultural services Supply on the office market Good job opportunities on the labour market	Situation of traffic and public transportation Lack of willingness for cooperation between firms Low level of collaboration between firms and universities, research and public institutions Slow and inadequate clustering process Lack of business strategies and strategic thinking of managers Passive behaviour of managers on the market Political climate and culture, problems of administrative and economic rules Quantity and quality of green spaces
Opportunities	**Threats**
High concentration of companies and enterprises Concentration of universities and colleges at Budapest Spectacular development of certain branches within the creative knowledge sector Attractiveness of BMR for the countryside manpower Great variety of neighbourhoods	Size, capability and openness of national economy System of education and higher education Hard competition between enterprises because of its high number in the BMR High specialisation of SMEs Inadequate concentration of human resources Price level of experienced and well-skilled labour Unbalanced role of subsidies in the development of different branches Danger of corruption regarding informal links Inadequate development of public services Price level on the office market Emerging social problems, tensions and intolerance

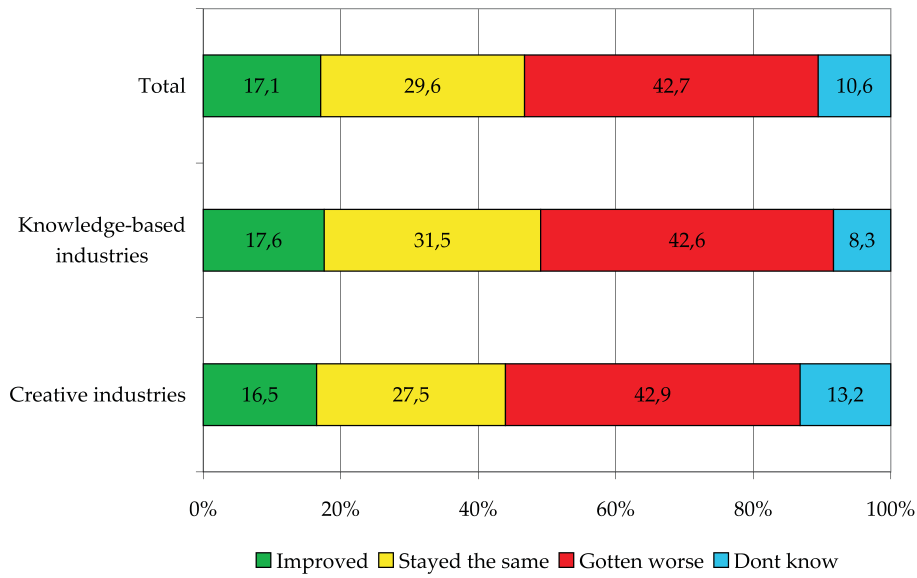

Figure 4. Perception of improvement or decline in the quality of life

international competitiveness in the long run *(Table 4).* If proper measures are taken for the amelioration of the environmental factors, Budapest and the BMR could be successful in attracting firms and experts of the creative and knowledge-based sector to settle here. In the opposite case the city region might become a loser in the competition between the big cities and its place would occupy other metropolises with similar potentials from the region (Egedy, T.–Kovács, Z. 2009).

Table 4. Limiting factors within the BMR based on the opinion of creative professionals

Factors	Type of factor
Costs of living (prices, level of wages and salaries)	hard
Traffic and public transport	hard
Cleanness of the city and living environment	soft
Air and noise pollution	soft
Intolerance, aggressiveness	soft
Homelessness, poverty, social polarization	soft
Politics, political culture	soft
Quantity and quality of green space	hard
Living standards, quality of life	soft
Public security	soft
State of building stock and public places	hard

Conclusions

After 2000 the Budapest Metropolitan Region managed to keep its leading position in the economic development and modernisation of the country in most respects. It serves as gateway for innovation and modern technologies, and national centre of most creative activities. The BMR has an outstanding role in the creative knowledge sector of Hungary and in all the branches of the sector the role of Budapest is predominant. BMR is over-represented in terms of the number and ratio of these firms, as well as the employees in firms of creative and knowledge-intensive industries and the revenues generated by this sector. The development of these industries in provincial cities now is somewhat lagging behind that of the capital but their gradual close up is indicative of positive shifts and promising for the future.

Summarising the results on location factors it can be stated, that highly qualified people employed in the creative knowledge sector in the Budapest Metropolitan Region in the course of decisions about their place of residence tend to take into account both hard and soft factors, but in general the hard ones are more influential. According to the opinions expressed by managers no rules of general validity can be established concerning site selection of the enterprises within the area of the BMR, because there are significant differences between the creative and knowledge-intensive sub-sectors and branches, depending on the size and age of the studied firms. As a general conclusion it can be stated that the settlement and site selection of the firms is affected by hard factors predominantly and soft factors currently play only a marginal role in attracting enterprises and managers towards Budapest. Based on our interviews it became clear that hard factors play an important role rather in attracting creative transnational migrants to the city, while soft factors are decisive in the decision about staying in the metropolitan region in the long run.

Since workers and highly qualified representatives of the creative knowledge sector as it was revealed by our survey were more satisfied with the soft factors of the city than with the hard ones, in Budapest it would be essential to improve the hard location factors in the near future.

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