

Does Centralization Serve Efficiency? De-Agencification in Hungary¹

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Abstract

For a long time, Hungary has been known for its quick and promising development of stable democratic institutions that made it a reference country in the CEE region during the 1990s and the early 2000s. However, a series of economic crises threw light on the efficiency defects of the operations of the Hungarian public administration emerging in the late 2000s. Thus a new series of structural and operational reforms was launched recently, inspired by the current stern economic times. These reform steps can be briefly characterized by the labels of concentration and centralization affecting the entire corpus of administration. In practical terms, Hungary makes an attempt to adapt to the current economic conditions via increasing efficiency and via more effective coordination while trying to conserve the achievements of the transition period. The article briefly introduces the major changes so far and offers a rationale to understand the motives of the reform. The article examines these questions based on empirical data and research.

1. Introduction

1.1 Ambition of the article

This article is about the currently ongoing public-administrative reform in Hungary that can be labeled with the name of the basic reform document issued in 2011: the “Magyary Program” with special regard to agencies. The program itself contains many administrative reform steps discussed in this article, but there are other significant reform elements practically implied but not incorporated into the text of

¹ A paper on this topic was originally delivered by Márton Gellén at the TED 5 Conference, Budapest.

the program. The ambition of the article is to provide a rationale to understand the reform steps in the context of the ongoing economic crisis.

1.2 Brief historical context

For a long time, Hungary has been known as the “best student” of the Western-type democracy and capitalism in the post-communist bloc. Democratic transition was marked by a vast rule of law (e.g. Sólyom 2003) and public institutional development (Neshkova and Konstantinova 2012, 326.). Public-administrative and general institutional changes took place in the context of rapid economic liberalization (Kornai 2006) and profound democratization of the entire society (Haerpfer 2006). The transition, however, could not be complete due to the lack of a (historically) significant timeframe. In this sense Kornai argues that the changes were “exceptionally speedy” (Kornai 2006, 223) in Hungary and in the entire region. With the perspective of more than two decades of the system change, the given historic time of the Western model societies also appears to be a decisive factor of the long-term characteristics of local transitions. Given the exceptionally long, steady growth period and dynamics of the “roaring nineties” (Stiglitz 2003), the model societies appeared even more desirable and more flawless than they in fact were. Transition countries including Hungary were not prepared for any systemic problems of the Western model, thus their adaptation technique was optimized more with regard to the general pace of change and to quick wins rather than to critical adaptation. The necessity of constructive criticism was enhanced by certain international authors, but their voice was hardly heard. I. Ayres and J. Braithwithe underpinned the significance of well-functioning legal instruments as well as the importance of public-administrative institutions. (Ayres and Braithwithe 1992, 7.) Such instruments and institutions are inevitable for corrections of the development path when it becomes necessary.

As times changed and the economic crisis erupted in 2008, Hungary found itself in a situation where the internal challenges of the still ongoing transition and the sudden, vast external challenges merged and created a “wicked” (Ferlie et al. 2011), multi-faceted crisis.

2. Theoretical patterns of solutions for increasing efficiency in stern economic times

Hungary is an EU member state that has been constantly under extensive deficit procedure since its accession in 2004. Due to its fiscal difficulties, Hungary signed a standby agreement with the IMF in November 2008. These are the primary circumstances that handcuff Hungarian reformers of public administration.

Given the fact that Hungary is a medium-size, unitary European country with strong traditions for Rechtsstaat and fiscal cameralism, what are the available model

solutions that offer fiscal gains and a generally crisis-proof way of maintaining the entire public sector? In this chapter, we analyze the available solutions from a fiscal perspective since this approach is the most obvious one for the decision makers, and it offers an analytical context to understanding the most vivid factor regarding the reform design. We also add some remarks on politics since political preferences were attributed to certain reform elements – especially to PPPs.

2.1 Model 1: New Public Management recipe

During 2002–2006, vast NPM-inspired reforms took place in Hungary: outsourcing and PPPs were viewed as the panacea for austerity and efficiency increase at the same time. A long chain of PPP university campus building/operating projects, PPP motorway projects, privatized public-health laboratories, PPP prisons and many others were launched within a few years. The NPM wave peaked when the government decided to privatize the public-health sector. This schedule was put down when a referendum halted the process in 2008; the result of the referendum led to the break-up of the coalition. There are signs that the primary rationale of the PPP campaign was the illusion that PPPs would not increase the state deficit. PPPs seemed to offer a bridging solution between development needs and fiscal possibilities in the short run. In 2005 and in 2006, Eurostat pointed out that PPP expenses have to be added to general state expenditures.

Theoretically (for the sake of argument), the pro-NPM path could be further developed. With pure economic logic, borrowing costs for PPPs must be higher than state financing under the circumstances of the economic crisis. Hungarian 10-year bonds are sold at an 8–9% interest rate on the Hungarian Forint. In case of partial government insolvency, the likelihood of not paying for PPPs is higher than not paying for bonds, thus the price of PPP financing must be higher than distributive financing. (In fact, knowing the prices on the Hungarian credit market, such projects could be financed at around a 14% interest rate on the Hungarian Forint when Forint bonds are issued at an 8% interest rate.) This argumentation does not affect the debate whether other sources of efficiency can counterbalance financing costs or not. However, the fiscal crisis overburdens policy decisions with short-term financial considerations that ban any further planning if there is any hint of the fiscal balance being affected. It is also true that “PPP” was very much attributed to the 2002–2008 socialist-liberal government as a political buzzword..

2.2 Model 2: Governance Model recipe

In case of a mature civil society, certain public-sector functions can be delegated to social partners. It might have a certain efficiency advantage to increase the proportion of various actors in governance as a common activity mix. As Éva Kuti pointed out, the Hungarian civil sector is far from being in a developed status, and it largely depends on state financing. (Kuti 2011) Even though there are viable examples of

cooperation (especially in social policy and in public education), the predominant state financing of the civil sector precludes significant efficiency increase of the public sector. Apart from the financing difficulties, the governance model requires additional controlling and coordination efforts from the central government.

Under the conditions of the economic crisis, the governance model can hardly contribute to successful adaptation due to the civil sector's dependence on government financing. There ought to be a government policy, however, to move the civil society to a more mature phase. There are indeed such signals, e.g. increasing the role of chambers of commerce and industry. Such policies require significant time while the fiscal crisis influences decision makers to seek short-term solutions. In the long run, governance-oriented reforms might still have a potential for increasing overall performance.

2.3 Model 3: Delegation of competencies

Delegation and decentralization of competencies are traditional organizational techniques of public-administration reforms. The issue of delegation and decentralization is widely considered to be a resource of efficiency in public administration. The rationale of increasing efficiency by delegation has basically two roots. Firstly, it stems from the idea of less political control involving higher professionalism (thus higher performance). Secondly, delegation is supported by the principal-agent theory whereas the separation of control and operations is the source of higher performance and efficiency.

In public-administration theory there have been well established accounts against over-delegation as a problematic phenomenon affecting administrative efficiency. According to Richard C. Box, "principal-agent theory is a myth" (Box 2004, 601–602). Fukuyama argues that delegation raises the issue of control and coordination since the agents tend to have their own priorities that are different from what the principals might have in mind. (Fukuyama 2004, 190)

In the case of Hungary, the practical potential to seek efficiency via more delegation was very limited. Delegation to local governments could not be a viable development path since the extremely complex system of nearly 3,200 local governments was not at all efficient. Apart from their structural and procedural difficulties, local governments face serious financial burdens, as well, due to their extensive Swiss Franc and Euro indebtedness that is to be detailed later.

Delegation to agencies might also have a rational contribution to efficiency, but the Hungarian public-administrative development path appeared to be relatively consistent in seeking economies of scale instead of seeking better division of labor. This will be detailed later in this article.

2.4 Model 4: Centralization and concentration of competencies

The terms “centralization” and “concentration” are differentiated here according to their realm of effect (this differentiation is common in the Hungarian PA research community). Centralization means re-locating responsibilities from the local governments to the central government. The term concentration is used for merging government organs within the central government.

Under the conditions of the economic crisis, centralization and concentration might have special (crisis-specific) advantages despite their unquestionable threats of contributing to citizen-unfriendly, rigid, inefficient bureaucracies. Centralization and concentration offer better coordination and control as well as efficiencies of scale. These aspects might gain additional value in a policy decision under the uncertainties and fiscal restraints of the crisis. According to the political aspect of the unfolding development path, a centralized and concentrated institutional system somewhat mirrors the monocentric political arena whereas the ruling political party has a 2/3 majority in the Parliament and also has an overwhelming majority in the municipal and county assemblies.

The chosen development path affects the allocation of duties (and resources) between the municipal and the central administration including the management of schools, hospitals as well as executing local authoritative tasks (e.g. building permissions). Concentration efforts decrease the number of administrative organs and put the remaining ones under rigorous control. Agencies are definitely not favored in such an environment. When agencies are discussed regarding Hungary, basically two definitions are available. According to György Hajnal: “By ‘agency’ I refer to public administration organizations (i) directly subordinated to the Government (i.e., either the Cabinet or a ministry) and (ii) falling into the organizational scope of Law on Civil Service.” (Hajnal 2011, 7) In this sense, “agencies” are definitely not autonomous organizations. I suggest using a different notion for agencies including entities having at least certain elements of autonomy. Such autonomous or quasi-autonomous institutions are analyzed later.

3. Brief introduction to the Hungarian public-administration system

In order to facilitate further discussion regarding the currently ongoing reform, the basic characteristics of the Hungarian public-administration system are briefly introduced.

3.1 Local level

In 1990, municipalities gained wide administrative competencies sealed with the constitutional and political power of elected assemblies and mayors. Municipal local governments and their apparatuses became the general public-administrative

forum of first instance with general competency. The level of autonomy of the municipal administrations is well reflected by the mirror translation of the Hungarian expression “local self-government”. The Act on local governments was a so-called cardinal law to be modified only with a 2/3 majority in Parliament. This provided an extremely strong legal guarantee for the local-government system in the constitutional sense. In the meantime, their economic basis suffered occasional damages, though, such as the loss of the re-circulated amount of personal-income-tax revenues or simply being addressees of public responsibilities without sufficient financing.

Seated above the municipal level, the counties gradually lost their disposable revenues (dues), and despite having elected assemblies, they remained maintenance offices of county institutions such as theaters, secondary schools and local state archives in the last decade. In the case of the county assemblies, relatively strong democratic authorization was contrasted with a mostly insignificant administrative role.

3.2 Central public administration

The architecture of the central public administration can be divided into the ministerial and the territorial levels. Territorial administrative organs are controlled by the ministries. Central government organs have had a dynamic development path during the past two decades. Their legal status can be described as very diverse until 2010, when there were significant efforts in order to rationalize the structure and the system of government organs from 2006. This diversity embraces structural, procedural, financial, human resource and legal dimensions, as well. The detailed history of the public-administrative organs of the central level exceeds the limits of this study but the magnitude of changes affecting the agencies can be visualized by Diagram 1.

The central administration – based on the ministries – followed the given political necessities of their time.

The Government makes its decisions as a council, mostly with consensus, exceptionally by voting. The decision-making process in the central administration typically contains three stages of consensus-building: 1. circulating the proposition among the ministries on the expert level, 2. the decision of the weekly session of the state secretaries for administrative affairs (permanent secretaries), 3. session of the Government. After the system change in 1990, the political and the professional dimensions of the ministries were strictly separated, the permanent state secretaries were heads of the apparatus, and they were – at least theoretically but in many cases also practically – not removed due to political changes. The relative independence of the civil service was replaced in 2006 when the position of permanent state secretaries was abolished; the original competencies of the permanent state secretaries were relocated to the position of political state secretaries, thus the entire central administrative system was put under political control.

4. Improving the systemic output of public administration

The last two decades allow sufficient perspective to draw major conclusions regarding the shortcomings of the system. The following three highlights might appear somewhat arbitrary but certainly worth analyzing.

4.1 Increasing efficiency, but what about efficacy?

Identifying decisive elements in such a complex system as the PA of a country might lead to questionable statements. The following analysis attempts to shed light on the connection of the following aspects:

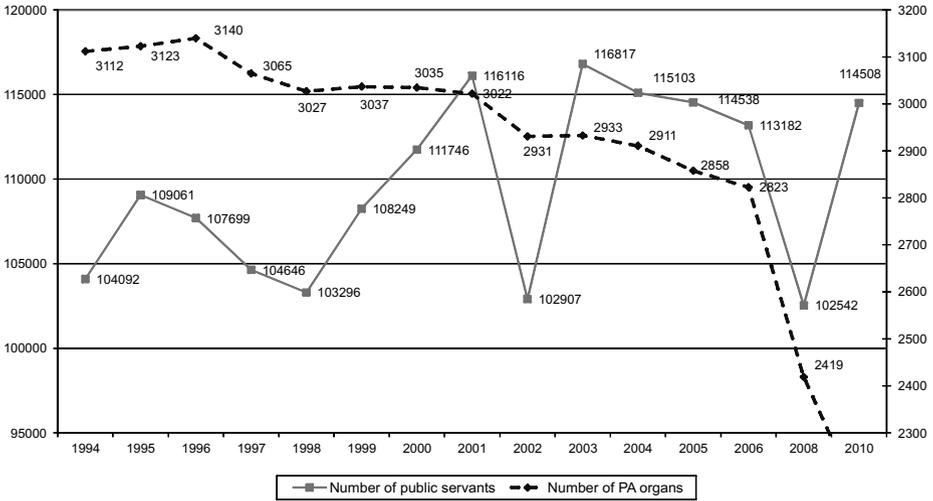
1. decreasing financial resources;
2. the legal system as a transmitter of authority and values;
3. policy results.

Using this approach, our question is the following: *Are the currently undergoing reforms – that can be described as centralization and concentration – appropriate to improve the balance between resources used and results achieved?*

Financial pressure has proven an undoubtedly decisive driving force of PA reforms in Hungary. There are at least three reasons why financial motives are proper driving forces of reforms. First: restrictions, austerity measures appear to have a long-lasting and self-sustaining character; second: in the technical sense, it is relatively easy to implement austerity-based reforms. Additionally, financial concerns often get such influential international advocates as the IMF for instance.

The entire public administration has been suffering a lot from chronic underfinance. Financing state debt – largely inherited from the old system – tended to absorb around 10–14% of annual state revenues. Of course, there are many other reasons for economic underperformance such as shock of the system change, decreasing population, rate of inactivity, general lack of economic competitiveness, etc. All of these factors added up to a flow of ever-intensifying budget restrictions. The almost permanent fiscal austerity initiated a constant drive for financial efficiency. Hungarian fiscal austerity programs – not analyzed here in detail – appear to have a common aspect that is the contraction of public administration (the waves of such headcount-reduction measures are demonstrated by Diagram 1).

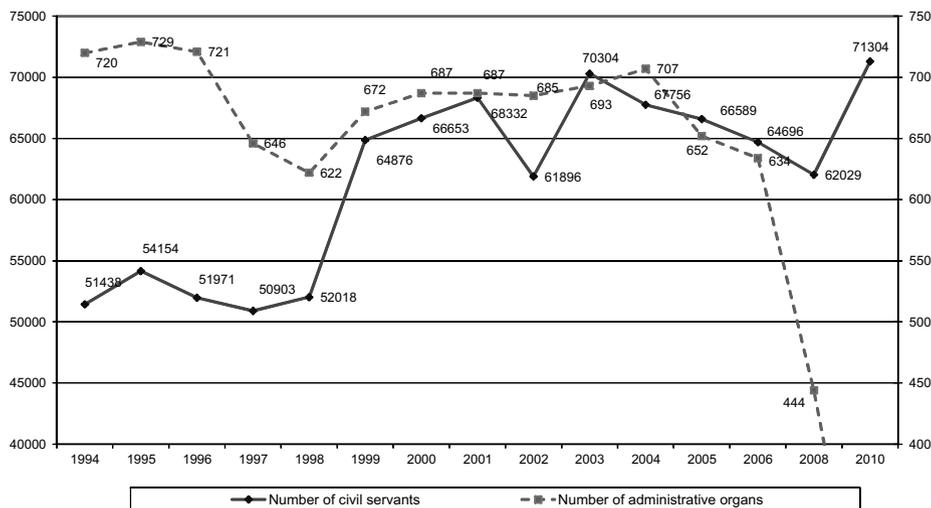
Diagram 1
 Number of public administrative organs and the number of civil servants
 1994–2010 (Hazafi 2011).
 No data available for 2007.



The diagram demonstrates the tendency of sharp downsizing campaigns followed by inevitable corrections in terms of headcounts in order to maintain basic public-administrative functions – while the number of public-administrative organs is steadily decreasing. The tendency relies on the perception that merged institutions offer operational efficiency gains. This perception lacks well-established empirical evidence on the systemic level, though. Such a permanently unpredictable system creates enormous adaptation costs on the side of the citizens but also within the public-administration system itself. Such mergers might support efficiency on the institutional level but probably not on the systemic level. It can also be stated that the efficiency gain might threaten efficacy. This occurs because of the frequency of changes. During the lengthy processes of policy-planning and policy implementation, the probability of serious institutional changes is high, therefore these changes tend to have a paralyzing effect on many aspects of PA. The most affected fields are HR-planning, financial-resource-planning, PA building facility-planning, but profound uncertainty causes enormous shortcomings on policy-management capability as well.

Diagram 2

Number of public-administrative organs and the number of civil servants – without the municipal (local-government) sector 1994–2010. (Hazafi 2011)
No data available for 2007.



The figure on civil servants in the public administration without the local-government sector (i.e. the central government organs and agencies) demonstrates a somewhat moderate volatility compared to Diagram 1. Paradoxically, the sharp reduction of the number of administrative organs between 2006 and 2008 was followed by a strong increase of headcounts in 2009. The loss of administrative capacity – because of the modifications of the administrative structure (mostly mergers of administrative organs) – appears to be compensated for by increasing headcounts. This demonstrates that short-term austerities tend to decrease efficiency on the institutional level that might – in itself – contribute to further cost increase that is contrary to the aim of restrictions.

4.2 Naïve Rechtsstaat-legalism collides with the principle of result-oriented, flexible public administration

Rechtsstaat culture is an inseparable attribute to Hungarian public administration (Hajnal 2008, 132.). The Rechtsstaat culture is a positive factor and has been of high importance during the 1970s and 1980s, since it represented a higher standard compared to the Soviet-type legal culture and as such – within narrow barriers – offered a certain alternative to the over-politicized operations of the Hungarian public administration.

The naïve Rechtsstaat culture's content can be compressed in the slogan: "whatever is not explicitly allowed by law – is illegal". This thinking deeply affects

public-administrative practice and can be hardly counterbalanced by unified interpretations of law supported by court decisions. Administrative courts could fill this gap if they existed. (The communist regime abolished administrative courts in 1949. Previously, these judicial forums offered the necessary legal flexibility for public administration – in a channeled but Rechtsstaat-friendly way. Thus during the communist period, the maimed Rechtsstaat culture mixed with the traditional irresponsiveness of Soviet-type public administration producing a really stiff, rigid combination. In the 1990s, this administrative attitude suddenly faced inexperienced challenges.)

As more changeable times came in the 1990s and 2000s, the social and economic pressure for more efficacious and more flexible public administration increased. The system reacted to this pressure in two ways: on the street level, a wave of contra-*legem* practices made everyday life bearable (Gajduschek 2008, Hajnal 2008); on the macro level, the system reacted with a constantly increasing amount of regulations: mostly modifications of the previous regulations but creating new legal material as well. The result of the tension between vast socio-economic changes and the rigid Rechtsstaat culture can be visualized by the following diagram that displays the numeric parameters of newly issued legal material in Hungary between 1990 and 2010.

Diagram 3

Newly released law in Hungary 1990–2010. Based on original research, empirical data provided by CompLex Publisher, Hungary

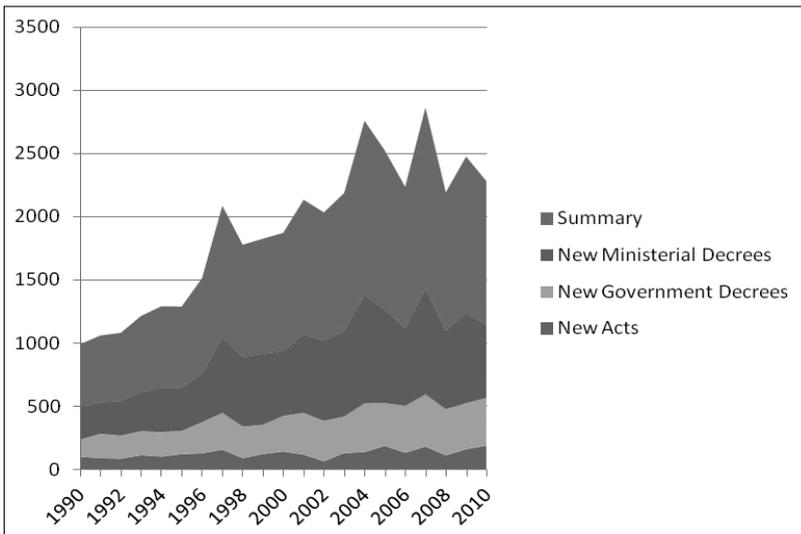


Diagram 3 summarizes the figures of newly released regulations in Hungary but excludes local-government decrees. It is to be underlined that applicable law contains new law, law already in force and in certain cases (for example in family-law cases or in citizenship law) even law currently not in effect might be applicable. It is not only the pure amount of applicable law that causes the problem. It is also the increasing internal complexity and interrelatedness of law that makes it really difficult to apply and to fulfill. There is a relatively simple internal parameter that can indicate the internal complexity of legal material: the number of references to other laws and regulations. In the case of the Hungarian Acts released in 2010, 185 newly released Acts contained 2053 references to other Acts, Government Decrees or Ministerial Decrees. This figure contrasts with the data of 1990, the year of the system change, when 104 new Acts were issued, and these contained 470 references altogether regarding other Acts, Government Decrees or Ministerial Decrees.² During the two decades, the average references per Act multiplied by 2.45 (from 4.51 to 11.09), at the same time newly released law contained 496 legal items in 1990 while in 2010 this figure was 1142. So there is an approx 2.5-fold multiplication in the content differentiation of legal materials and an approx. 2.5-fold multiplication in the gross figures of newly released law.

With such a high complexity and internal dynamism, it is really questionable how public administration can fulfill the criteria of the rule of law and efficiency at the same time without losing effectiveness.

In fact, the phenomena of the two dimensions formulate a vicious circle of distrust between society and the public administration: the administration intensifies regulatory scrutiny, increases sanctions and administrative burden, while the wide society experiences that public interest is not met by administrative effectiveness. On the contrary: everyday life is bogged down by strange, complicated and permanently changing regulations. This fuels law avoidance that causes even more rigorous regulations etc.

EU accession and the harmonization of domestic law to the *acquis communautaire* did not reduce the vicious circle of overregulation. The EU membership even intensified it through initiating new regulatory regimes and via introducing even more scrutiny in implementing its policies such as common agriculture policy, for instance.

4.3 Role of agencies in the reform

Independent or quasi-independent public administrative bodies are not typical in the Hungarian public administration. In his cited study, Hajnal uses the term “agency” for covering all entities in the public administration beneath the ministerial level. (Hajnal 2011, 7). If we define “agencies” as holders of a certain level of

² The figures come from an empirical pilot research carried out under the coordination of the author on behalf of CompLex Publisher, Hungary, 2011.

independence (from the Government), in the Hungarian case we find a few organizations that can be categorized as such:

- Hungarian branches of international or EU institutions (such as the Hungarian branch of the International Atomic Energy Agency, or the National Development Agency that is in charge of allocating EU funds domestically – these are formally integrated into the domestic PA system, but they have a high de-facto independence);
- Background institutions of ministries without administrative authority – these are typically project-management or consultative institutions. State-owned companies can be placed in this category (The ownership of all state-owned companies belongs to the Ministry of National Development);
- In the narrow legal sense, Hungary has four agencies altogether. These are defined by Act XLIII. 2010 (§1) as autonomous government organs: the Public Procurement Authority, the Competition Authority, the Authority on Equal Opportunity, the Data Protection and Freedom of Information Authority;
- Administrative organizations subordinate to the Parliament (not to the Government): the Media Authority and the Financial Supervisory Authority.

Such a narrow limitation of agencies is a result of recent reforms. Nevertheless, the process of decreasing the number of administrative organs (as well as agencies) has been a constant development pattern since 2004 (see Diagram 2.) The centralization process affected state-owned companies as well (e.g. the Hungarian State Railways group was consolidated from more than 100 companies to around 20 in 5 years time). A certain, broad de-agencification was carried out before the centralization campaign begun in 2010.

The reason behind the overall centralization path – apart from the economic (or rather: fiscal emergency) steps – is not yet fully discovered. According to Hajnal's findings on the "extremely hectic" period of Hungarian PA, 40% of the administrative organs and agencies were terminated in their first year of existence between 2006 and 2010 (Hajnal 2011, 13.) Thus the desire for general, structural stability might be one reason for the centralization. The second reason might have been the need to increase internal and external transparency that enables domestic control and provides better information for the international creditors. Thirdly, the hectic period of short-lived agencies and administrative organs reflected the turbulence of the political arena (from the 2006 riots to the coalition break-up, the PM's resignation in 2009 and the minority Government) whereas short-term political deals determined the distribution of influence over agencies. The 2/3 majority government entered power in 2010 and began to re-arrange agencies and PA organs as well: monocentric politics appeared to require a centralized institutional subsystem.

4.4 Considerations on analyzed elements of the Hungarian PA development path

The implementations of fiscal stabilization packages on the domestic public administration were built on the idea that large systems – like the vast administrative apparatus of a country – always have a certain system-tolerance for austerity. The organization-theory concept of the pursuit for efficiency was that “economies of scale” have the potential for real operational efficiency gains. This meant that – according to the ruling stakeholder perception – fewer, bigger agencies lead to efficiency gains. Contrary to this practice, theory would require internal efficiency-improving reforms first, and as a gain, financial restrictions could be introduced afterwards. On the other hand, it is trivial that bigger organizations are not necessarily better ones.

Legal considerations are of utmost, comprehensive importance for a rule-of-law country. Legal stability, legal status, accounting and budgeting rules determine the output and capacities of administrative institutions. On the inter-institutional level, the most important factor is the level of autonomy granted to the agency that might unleash creative energies within the management in order to serve the public good while keeping transparency and accountability standards. Higher autonomy (such as the Hungarian local governments’ autonomies, which were protected by a 2/3 majority law) could offer a higher local input but with the risk of losing central control and losing the grip on coordination (Fukuyama 2004). The challenge is to find and to sustain the “aurea mediocritas” between efficiency gains locally and losing the control centrally.

The issue of delegation leads to the problem of systemic guarantees for overall efficacy. The major challenge from the policy decision-making point of view is this: if administrative institutions (implicitly: agencies) are given high autonomy, it might add to their efficiency on the local or institutional level, but how can they be effectively coordinated in order to maximize the desired effects of governance – while fulfilling the criteria of financial rigor?

Autonomous agencies have a marginal role in Hungary, their autonomy is either protected by international players or by the decision of the Parliament. Such decisions can also be decisively motivated by the international context. Independent authorities control the vitally important policies of media, finance, competition, freedom of information, human rights and public procurements. Some quasi-independent agencies still remain after the radical centralization wave. These are mostly relatively insignificant or belong to well-protected sectoral interests.

5. The Hungarian path

5.1 Comprehensive reforms

When Hungary was hit by the international economic crisis in 2008, internal inefficiencies suddenly came to the surface. In order to avoid fiscal insolvency, Hungary signed a stand-by loan agreement with the IMF. According to the first country report under the loan agreement³, the following structural reform steps – affecting public administration – were agreed upon:

- Reducing the government's financial needs,
- cost-cutting in central government,
- taking steps to eliminate redundant transfers and subsidies provided by different government levels,
- encouraging local government to seek economies of scale by cutting central government transfers (in the 2010 budget),
- reduction in the size of local councils.

As can be seen, the promise of efficiency gains was not seen in granting more autonomy to local governments and government organs (as well as agencies) but in merging them. Neither was the potential for overall efficiency gains identified in increased policy control. Otherwise, the request of higher fiscal control upon the PA organs and on the local governments was incorporated into the IMF-Hungary cooperation but without any reference to overall policy control.

In the following, we analyze the question whether the reform steps are adequate for the most important internal shortcomings of the Hungarian public-administrative system – under the conditions of the economic crisis. It can also be argued that the reforms are not results of any rational policy choice but rather consequences of emergency steps.

5.2 Ministries

The number of ministries between 1989 and 2010 varied around 14, but in 2010 their number was radically reduced to 8. The newly created grand ministries incorporate the competencies of earlier ministries. For instance, the Ministry of National Development embraces the following competencies: energy, transport, IT & telecommunications, state-asset management and allocation of EU funds.⁴ Each of these fields are controlled by a thematic political state secretary in terms of policy

3 <http://www.imf.org/external/pubs/ft/scr/2009/cr09105.pdf>

4 The new Ministry of Economics has the competences of the financial sector, the labor administration, innovation, foreign economic relations and economic policy-making; the new Ministry of Rural Development has the competences regarding agriculture, water management and environment protection.

content, but the civil service's human and financial administrations are controlled by the non-politician administrative state secretary.

In 2010, the position of the permanent state secretary was re-established as head of the ministry apparatus, but policy content and the control of policy management remained under the thematic political state secretaries. Thus a decisive portion of policy coordination was re-located from the earlier PMO to the ministry level, but certain other parts of this activity were deployed to the Ministry of Public Administration and Justice (this new grand ministry absorbed competencies of the earlier PMO and of responsibilities of the Ministry of Justice) and partially to the Prime Minister's Cabinet.

5.3 Public administrative institutions of the central government

In 2010, the new Government, supported by a 2/3 majority in Parliament, began to change the settings of the system of the post-system change Hungarian public administration. Regarding public administration, the most spectacular step is the change of the government-organ system and later on the responsibilities of the local governments. The crucial issues of both changes are the level of autonomy and – due to the financial conditions – the level of efficiency.

A new government territorial institutional system was introduced in 2010 [288/2010. (XII. 12.) Gov. Decree]. The previous, diverse system was built on the sectoral logic, with the ministry at the top of each sector, having at least one agency of national competence, this agency having sub-agencies of county (or later: regional⁵) competence.

The new system replaces the system based on sectorally integrated hierarchies with a more unified system. The main elements of the system are as follows.

The new administrative architecture deploys operational coordination onto the Ministry of Public Administration and Justice while policy conduct remains at the line ministries. This creates a dual control between the unified operational functions and the semi-coordinated policy functions. Nevertheless policy coordination does not have a single center; the Ministry of Public Administration and Justice has a certain secondary coordination function since part of the coordination burden was already relocated to the new grand ministries.

In the new system, the county-based agencies (County Government Offices) of the Ministry of Public Administration and Justice are responsible for the accounting, budgeting, staffing, legal monitoring, IT support and front office service of the following sectoral fields (certain fields such as policing, revenue service and Treasury are excluded from the integration):

5 Establishing regional institutions in a country that does not have regions in the administrative sense was one way of reducing the number of administrative organs in order to seek efficiencies of scale.

- Social and childcare affairs;
- Housing and construction;
- Judicial support;
- Plant and soil protection;
- Forestry;
- Agricultural production;
- Food safety and animal health;
- Land registry;
- Health insurance;
- Pension insurance;
- Labor administration;
- Labor protection;
- Consumer protection;
- National heritage protection;
- National health administration;
- Measurement authentication and technical safety.

According to the logic of this integration, efficiency gains are expected from the economies of scale in institutional operations and from internally more transparent accounting and budgeting. On the clients' side, simpler and smoother service is expected from the integrated front offices (Government Windows).

The integration focuses on the operational efficiency gains; the contents of the policies carried out by the integrated agencies are still determined by their line ministries.

5.4 The first experience of integrated government offices

In the first period of the integration, it turned out that local differences affected previous practices; in many cases the payments of the civil servants were not adjusted according to the payment standards, and in many cases accounting was not transparent. During the first period of the integration, the following cost streams were reduced: rationalizing headcounts, accommodation of offices, unification of car usage, telecommunications costs, joint purchasing of energy was arranged. The gains altogether added up to the approx. 12% of the operational costs of the previous system.⁶

Apart from the obvious opportunity for efficiency gains, there are certain issues that have to be addressed regarding the integrated system.

Could the old system have provided the efficiency gains that were delivered by the integrated system? The answer is probably yes, since there were numerous previous initiatives of homogenous IT policies, HR and accounting standards, but

⁶ Figures are from government officials, not from scientific resources. Valid scientific evaluation requires more distance in time.

these initiatives were mostly hindered by the sectoral administrations since they successfully protected themselves from external forces throughout two decades. In the current case, the structural change appears to be decided by the Government partly to increase efficiency and partly to carry out cost savings but also – to a certain extent – with the purpose to break down non-transparent sectoral and local polity resistance. Even more importantly: Does such loss of institutional independence strengthen or weaken policy-delivering capacity? For the time being, this is difficult to answer since the reform does not have a significant perspective in time yet for well-established reflections. However, it can be stated that effectiveness improvement should be pursued even if it does not have such influential advocates as short term efficiency gains have (such as IMF).

Effectiveness gains may be supported by enhanced policy-performance management. There are promising steps in this direction, but they need further improvement. One step is the application of a renewed regulatory-impact-assessment (RIA) system supported by ECOSTAT (Agency for Statistics⁷) and by the Centre of Public Policy (both agencies of the Ministry of PA and Justice). This system requires further development, though, with special attention to the RIA database that might become remarkable in a few years' time.

5.5 Centralization applied to local-governmental responsibilities

The Hungarian local-government system – as previously indicated – has been labeled inefficient by many observers and international organizations such as the OECD. On the other hand, the Hungarian local-government system, having high autonomy, fulfilled the European Charter of Local Self-Government and prescriptions of utilizing local social energies. The high autonomy of the municipal sector used to contribute to short-term fiscal efficiency since the local governments became bearers of tasks with insufficient central financing. Such tasks disappeared from the budgetary agenda of the central government that has been under permanent financial pressure. Since the municipalities have diverse resources for additional revenues, certain local governments could survive such Government measures in a financially intact position. However, the unsustainable nature of allocating tasks without sufficient financing to the municipal sector backfired: while in 2005 the gross debt of municipalities added up to 1.9 % of the GDP, in 2009 it was 4.1 %. (Vigvári 2011, 61.)

The next step of the reform is to re-concentrate the majority of competencies from local-government offices to the newly established district administrations (townships). According to the ongoing reform, townships would be the local branches of the County Government Offices, and they would be responsible for all public-administrative issues that are currently delegated to the local governments. This will somewhat hollow out the local governments' administrative role since ap-

7 This is not to be confused with the Central Statistical Office.

prox. 75 % of their case load is affected by the reform. This involves that the systemic role of local governments has to be reconsidered for at least two reasons. Local governments have enormous voluntary tasks (maintaining secondary schools, etc.), and they have significant “own” revenues. Since local identity is usually considerably strong in the Hungarian society, these factors should not be excluded from considering the next steps of the reform.

The re-centralization of municipal competencies appears to be in line with the OECD findings of 2008, and it also has an impact on state financing. The sharp increase of municipal indebtedness can be halted, and a new, transparent system can be elaborated regarding 75 % of the local governments’ responsibilities. Transparency and closer control might be more acceptable for international state financiers than a complicated patchwork of local governments. On the other side of the coin: local control on local issues will certainly be weakened.

Regarding the lack of necessary flexibility of the entire administrative system under the rule of law, the planned re-establishment of administrative courts is an undoubtedly beneficial element of the reform. The importance of administrative courts is recognized by the new Constitution of 2011 (Article 25, paragraph 4); thus there is a solid legal basis to fill the highly important space between the natural rigidity of the Rechtsstaat system and the ever-changeable reality. According to the current plans, administrative courts will be re-established in 2013. After a few years of operation, the rigidity of the norm-focused legal system can be expected to ease up due to appropriate court interpretations of law.

6. Conclusions

It is to be discussed whether the institutional re-concentrating reform – that is currently undergoing in Hungary – helps to meet the serious challenges of our time. In our analysis, we studied the following elements of adaptation to the crisis.

6.1 Financial concerns

Financial-efficiency criteria appear to be convincingly fulfilled – according to the first experience. Around 12 % operational cost savings at the centralized, county-based government organs is a significant gain – naturally, it is still a question whether it is enough. Due to the reform, international creditors can have a clear overview on this part of the Hungarian PA, and in the future, it will be easier for the Government to carry out further restrictions if necessary throughout the government-controlled PA institutions.

In the case of the local governments, there might be serious financial concerns regarding the local co-financing of public services as well as the local voluntary contributions. GDP 4.1 % local-government (municipal) debt is undoubtedly worth talking about. With the reduction of local governments’ importance, creditors’ posi-

tion for negotiating with either the local governments or with the Central Government is certainly not enhanced.

6.2 Legal system as a transmitter between resources and results

Due to the reforms, rule of law appears to be maintained – but hopefully with a more settled internal structure. The vast modifications of sectoral regulations might be consolidated. Furthermore, institutional diversity as a resource of varying interpretations of law appears to be decreased

In 2013, Administrative Courts will begin their maintenance work on the machinery of the rigid legal system; thus its flexibility is expected to improve gradually but significantly, improving the quality and efficiency of the operations of the entire PA.

6.3 The role of agencies

Agencies are definitely not the key players of the ongoing reform. Their overall number has been gradually reduced since 2004, and the relative independence of most of them vanished. The remaining ones are, however, extremely important, controlling key elements of the administration such as the media or the financial sector. With these exceptions, the Hungarian PA development path can be an example of de-agencification. Under the circumstances of the financial (and economic) crisis, higher central control of finances and of policies appear to have higher value for the Hungarian decision makers than any potential gain on effective agency operations.

6.4 The democratic element of the reform

Re-concentrating PA institutions within the Central Government architecture does not raise concerns regarding democracy. In the case of local governments, democratic control and legitimacy is high in Hungary due to the strong democratic authorization of locally elected mayors and local assemblies. The current reform affects only those competencies of local governments that were delegated to them by unilateral decision of the Central Government; thus one can argue that delegation is a two-way-street. Concerning the democratic element of the reform, re-centralization of competencies does not necessarily decrease democracy (Peters 2009). In fact, via better transparency and accountability it might even enhance democratic control over public administration.

Without too lengthy a description of the past development path of Hungarian public administration – this job was nicely done by György Hajnal and György Jenei (Hajnal and Jenei 2008) – I would like to conclude that re-centralization and re-concentration appears to be an evident reply to the internal and external challenges presented to the Hungarian public administration, especially when it comes to handling the crisis, but I expect that this reform path is temporary and within 4–5 years, certain competencies will be decentralized again in order to better en-

able the governing center to formulate long-term policies instead of every-day issue management.

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