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Title: Centralization and de-agencification in Hungary. Towards a crisis-proof public administration?

Subtitle: Administrative capacity building in times of fiscal restriction, austerity and economic crisis

Abstract

Hungary has been for long known of 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, series of economic crises threw light on the efficiency defects of the operations of the Hungarian public administration emerging in the late 2000s. 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. The article embraces the newest developments regarding the reform and analyzes the reform steps in a framework of synthesis.

1. Theoretical framework

We argue

1.2. The general necessity of change

This paper is a part of a larger research that was conducted on public administrative reforms with regards to the changes of the role of state throughout the years of the crisis. Analyzing public administration reforms with a perspective on the changes of the role of the state throws light on the enormous adaptation efforts carried out by the nation states – in this case: Hungary – in order to match the enormous challenges they face.

Challenges that affect human societies differ according to age, the interpretations of the challenges and the responses depend upon culture. (Waldo, 1968) In connection with the

variety of solutions, vast selection of public administration reform vehicles were developed in the last two decades.

The issues of social and economic challenges have been long ago well elaborated. (Peters – Rose 1978. pp. 7-9. The new societal challenges raise the question of the adaptation of the state. (Farazamand 1999. pp. 509-522) Emile DURKHEIM states that the market requires external roles and frameworks that sustain it and provide the necessary political stability. The cornerstone of the social market economy is how the market economy principles can be harmonized with the interests of the wide society. (Ventriss,2010. pp. 416) Public administration is one of the main vehicles of the state in harmonizing economic interests with social considerations therefore public administration's capacity to practically fulfill this task has to be maintained throughout its reform. However, public administration reforms might bear a risk: occasionally even increase the complexity of the given challenges instead of simplifying them. (Camillus 2008 pp. 98-106.)

1.3. The model for the Hungarian choice

Public administration reforms – regarding the role of the state – categorized according to the model below. When the economic crisis generates a drive for PA reforms there can be two strategic directions regarding the role of state: either the improvement of the internal capacities of the state i. e. the further development of existing organizational capacities or transferring state duties to other players.

Brief Historical Context

For long, Hungary has been known as “best student” of the western type democracy and capitalism in the post-communist bloc. Democratic transition was marked by the rule of law (e. g. Sólyom 2003) and public institutional development (Neshkova and Konstandinova 2012. pp. 326.) by rapid economic liberalization (Kornai 2006) and was also marked by significant, profound democratization of the entire society (Haerpfer 2006). The transition however could not be complete due to the lack of (historically) significant timeframe. In this sense Kornai argues that the changes were “exceptionally speedy” (Kornai 2006. pp. 223) in Hungary and in the entire region. With the perspective of more than two decades of the regime change, the given historic time of the Western model societies appears to be also 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 as 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 on general pace of change and on quick wins rather than on critical adaptation. The necessity of constructive criticism was enhanced by certain international authors but their voice was hardly heard. I. Ayres and J. Braithwite underpinned the significance of well-functioning legal instruments as well as the importance of public administrative institutions. (Ayres and Braithwite 1992. pp. 7.) Such instruments and institutions are inevitable for corrections of development path when it becomes necessary.

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

2. A 2/3rd majority drives the reform

The Hungarian public administrative reforms – throughout the years after 1989 – suddenly halted after an ambitious period of system change and institution building. The newly established public administrative system had to be corrected on an efficiency-increasing basis. This period was followed by the stabilization of the institutional system. After the era of stabilization and slow development, a new reform period unfolded in which finally the New Public Management reforms became dominant in the first decade of the new millennium. We analyze reforms after 2010 later as a potential public administration reform response to the new conditions of the general economic (and social) crisis.

The Government – that stepped into power in 2010 – has a 2/3rd majority in Parliament. Even with such unprecedented support, it had to face the economic crisis while dealing with the systemic controversies of the transitional period. As part of this double effort, the Government launched a vast reform agenda for the entire public administration system. The strategic PA reform document of this period is the Magyar Program, launched by the new government in 2011.

3. Drivers of the reform

Financial pressure has proven an undoubtedly decisive driving force of PA reforms in Hungary throughout the last two decades. 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 under-finance throughout the years of the regime change. Financing state debt – largely inherited from the old regime – tended to absorb around 10-14% of annual state revenues. On a wider context, naturally there are many other reasons for economic underperformance such as shock of the regime 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 details – appear to have a common aspect that is the contraction of public administration (the waves of such headcount-reduction measures are demonstrated by Diagram No. 1).

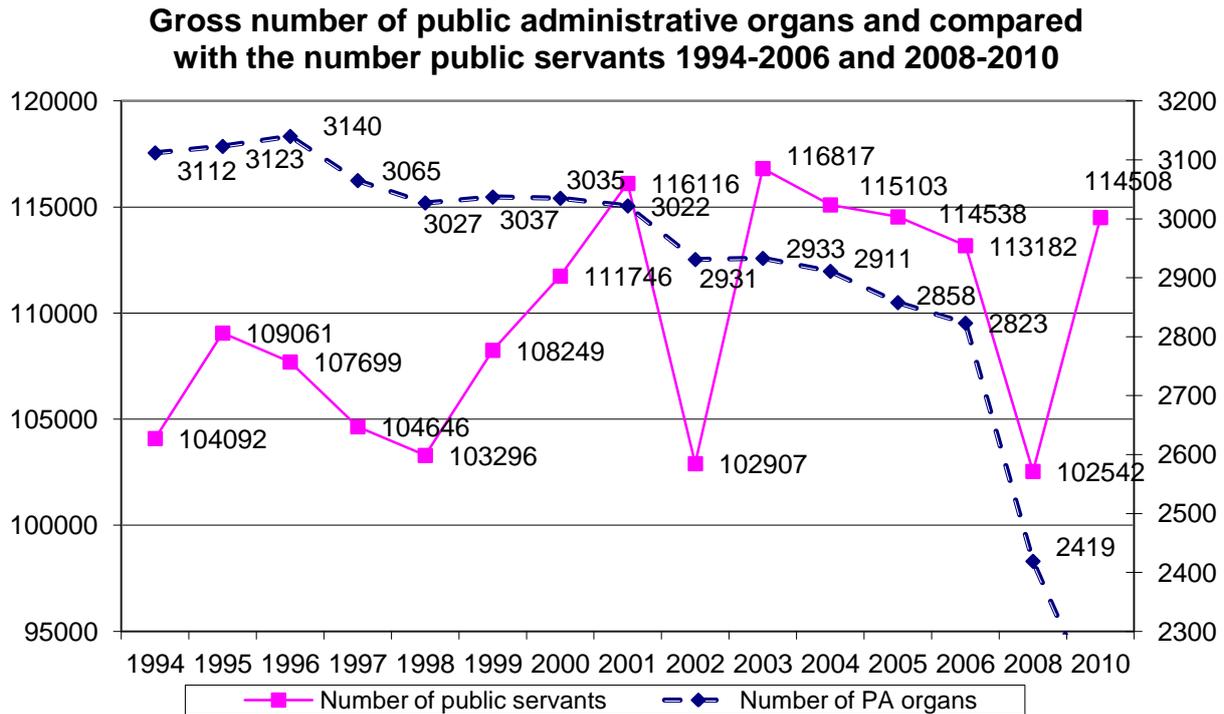


Diagram No. 1. Number of public administrative organs and the number of civil servants 1994-2010 (Hazafi 2011)¹

The diagram demonstrates the tendency of sharp downsizing campaigns followed by inevitable corrections in term 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 empiric 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. Thus such mergers might support efficiency on the institutional level but probably not on the systemic level. It can also be addressed, that the efficiency gain might threat 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 paralyzing effect on many aspects of PA. The mostly affected fields are HR planning, financial resource planning, PA building facility planning, but profound uncertainty causes enormous shortcomings on policy management capability as well.

¹ No data available for 2007.

Number of public administrative organs and the number of civil servants – without the municipal (local government) sector 1994-2010

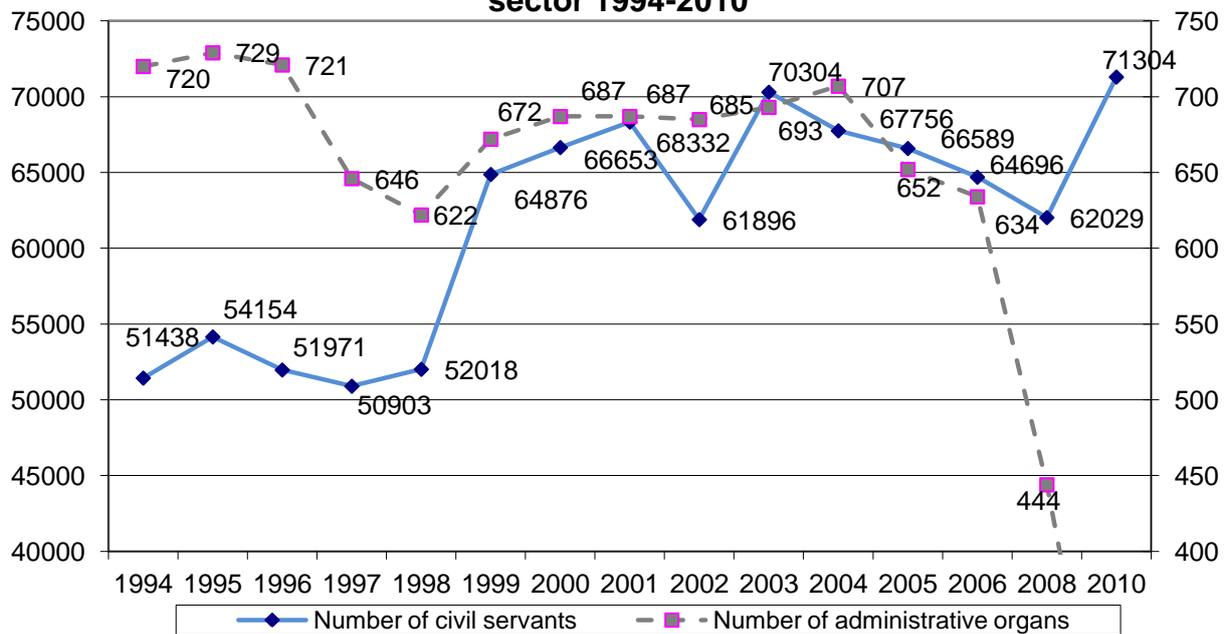


Diagram No. 2. Number of public administrative organs and the number of civil servants – without the municipal (local government) sector 1994-2010²

The graph on the number of civil servants in the public administration without the local government sector in Diagram No. 2. (i. e. the central government organs, and agencies) demonstrates a somewhat moderate volatility than on Diagram No. 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 by increasing headcounts. This demonstrates that short term austerities tend to decrease efficiency on the agency (administrative organ) level that might – in itself – contribute to further cost increase that is again object of restrictions.

4. Sweeping reforms

In the followings, we analyze the reform steps of the government stepping into power in 2010.

4.1.Ministries

² Hazafi, 2011 – no data available for 2007.

The number of the 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.³ Each of these fields are controlled by a thematic political state secretary in terms of policy 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 administrative state secretary was re-established as head of the Ministry apparatus but policy content and the control upon 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.

4.2. Territorial public administrative institutions of the Central Government

In 2010 the new Government supported by a 2/3rd majority in Parliament began to change the settings of the system of the post-regime 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 on the top of each sector, having at least one agency of national competence, this agency having sub-agencies of county (or later: regional⁴) competence.

The new system was created to replace the sectorally integrated hierarchies to a more unified

³ New Ministry of Economics has the competences of the financial sector, the labor administration, innovation, foreign economic relations and the economic policy making; new Ministry of Rural Development has the competences regarding agriculture, water management and environment protection.

⁴ 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.

system. The main elements of the new system is as follows.

The new administrative architecture deploys operational coordination onto the Ministry of Public Administration and Justice while policy conduct remains at the Ministries in line. This creates a dual control between the unified operational functions and the semi-coordinated policy functions. Policy coordination does not have a single centre nevertheless, 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):

- 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 in-line Ministries.

5. The first experience of integrated Government agencies

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 costs 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.⁵

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

Could have the old system provide 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 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? By the time being, this is difficult to answer since the reform does not have 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).

⁵ Figures are from government officials, not from scientific resources.

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 the ECOSTAT (Agency for Statistics⁶) 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.

6. Re-centralizing 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, 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 contributed to a certain resource of fiscal efficiency for the incumbent governments as the local governments became bearers of tasks without financing. Such delegated tasks disappeared from the budget 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, on the systemic side, the unfunded delegation of tasks turned out to be unsustainable. While in 2005 the gross debt of municipalities added up to 1,9% of the GDP, in 2009 it was 4,1%. (Vigvári 2011. pp. 61.)

The currently ongoing step of the reform is to re-concentrating competencies from local government offices. It is to be mentioned that the work capacities of local government offices used to be divided between original local government competencies and delegated competencies (this is a Hungarian-specific distinction). The re-concentration affects the delegated competencies that are concentrated to the newly established district administrations (townships).

According to the ongoing reform, townships became the local branches of the County Government Offices and they became responsible for all public administrative issues that used to be delegated to the local governments. This somewhat hollowed out the local

⁶ It is Different from the Central Statistical Office.

governments administrative role since approx. 75% of their case load consisted of delegated public administrative cases. 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 is about to be elaborated regarding 75% of the local governments’ responsibilities. Transparency and closer control might be more acceptable for state financiers than a complicated patchwork of local governments. On the other side of the coin: local control on local issues will be certainly weakened even if the delegated tasks used to be allocated to the local level upon a decision not made by the local assemblies.

7. Administrative and labor courts

Regarding the lack of necessary flexibility of the entire administrative system under the rule of law, the establishment of administrative and labor 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. 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.

8. Concluding remarks

8.1. Financial concerns

Financial efficiency criteria appear to be convincingly fulfilled – according to the first experience. Around 12% operational cost savings at the Central 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' position for negotiating with either the local governments or with the Central Government is certainly not enhanced.

8.2. 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, the institutional diversity as a resource of varying legal interpretations of law appears to be ceased.

In 2013, Administrative Courts began 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.

8.3. Policy planning and coordination

Policy planning has been enhanced throughout the reform although the system in practice has not proven yet. Policy implementation might have a major chance to be improved because of institutional unification and better systemic, internal transparency. On the other hand, the cooperation between the operational control (Ministry of PA and Justice) and the sectoral control (Ministries in line) should be further elaborated. Otherwise political rivalry or any lack of communication and distrust might cause serious difficulties.

8.4 The Democratic element of the reform

Re-concentrating PA institutions within the Central Government architecture does not raise concerns regarding democracy.

In 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 to-way-street. Concerning the democratic element of the reform, re-centralization of competencies is not necessarily decreasing democracy (Peters 2009). In fact, via better transparency and accountability it might even enhance democratic control over public administration.

Without too lengthy further 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 address that re-centralization and re-concentration appears to be an evident reply to the internal and external challenges put on the Hungarian public administration especially when it comes to handling the crisis, but there is still room for further improvement, especially in policy management capacity.

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