Enhancing the Capacities to Govern: Challenges Facing the CEE Countries

Edited by: Bryane Michael, Rainer Kattel, Wolfgang Drechsler

NISPAcee
The Network of Institutes and Schools of Public Administration in Central and Eastern Europe
Enhancing the Capacities to Govern:
Challenges Facing the Central and Eastern European Countries
Enhancing the Capacities to Govern:

Challenges Facing the Central and Eastern European Countries

Selected Papers from the 11th NISPAcee Annual Conference
Bucharest 2003

Edited by:
Bryane Michael
Linacre College, Oxford
Rainer Kattel
Tallinn Technical University
Wolfgang Drechsler
University of Tartu

Bratislava: NISPAcee, 2004
# Table of Contents

**Preface**  
*Bryane Michael, Rainer Kattel, Wolfgang Drechsler* ................................................. 7

**Introduction: The Challenge of Capacity Building in Central and Eastern Europe**  
*Bryane Michael* ........................................................................................................... 9

## Section I:  
**Building Capacities for the Present and the Future**

Gearing Central and Eastern European Governments Towards Weaving the Future through Ruptures in History  
*Yehezkel Dror* ............................................................................................................ 17

The Capacities to Govern in Central and Eastern Europe  
*Martin Potůček* .......................................................................................................... 27

## Section II:  
**Changing Perceptions of Governance**

Democratic Values in Times of Radical Change: A Comparison at the Local Level between Lithuania, Belarus, Russia, Sweden and the Netherlands  
*Michiel S. de Vries* ..................................................................................................... 49

Role and Role Perceptions of Senior Officials in Slovakia  
*Katarina Staroňová* ................................................................................................... 67

Analyzing Policy Formulation in the Czech Republic: The Case of the Temelin Nuclear Reactor  
*Donald Fuller* ............................................................................................................ 83

## Section III:  
**Changing Relationship between the Nation and the Region**

Toward an EU Regional Policy: Challenges and Realities for Accession  
*Peter Szegvari* ............................................................................................................ 97

Democratic, Decentralisation and Efficient Regional Governance: Politico-Administrative Relations in the Polish Regions from 1989 to 2003  
*Tatiana Majcherkiewicz* .......................................................................................... 111
Crimean Tatar Legislative Representation in the Context of 2002 Ukrainian Elections
*Rustem Ablyatifov*................................................................................................... 129

**Section IV:**
**Financing Capacities to Govern**

Vertical Imbalance, Externalities and Bailout – The Case of Polish Local Government Borrowing
*Bartlomiej Gurba*.................................................................................................... 145

Problems of Overcoming Perverse Fiscal Incentives for Local Governments in the Republic of Bashkortostan
*Ildar Zoulkarnay*..................................................................................................... 164

Unanticipated Budgetary Consequences of Devolution: Capacity Enhancing Potentials within the Current Russian Constitutional Framework
*Herrington J. Bryce*.................................................................................................. 180

The Property Tax – A Missed Opportunity for Fiscal Decentralisation in Transition Countries? The Czech and Slovak Cases
*Phillip J. Bryson and Gary C. Cornia*..................................................................... 193

**Section V:**
**Managing the Relationship between the State and Society**

Evaluating the Quality of Internal Information Flows and Citizen Interaction in Estonian Local Authorities
*Kristiina Tõnnisson*................................................................................................. 211

Challenge for Effective Health Sector Governance in Hungary: Co-operation between the Medical Profession and Government
*Pavel Ovseiko* ........................................................................................................... 224

The Failure of Public Governance in Romania
*Alina Mungiu Pippidi and Sorin Ionita*................................................................. 243

Anti-Corruption Education and Training in Lithuania
*Mantas Jonauskis* .................................................................................................... 254

About the Authors .................................................................................................... 270

Index ........................................................................................................................... 273
Preface

Commissioned by the NISPAcee, this volume brings together some of papers of the NISPAcee 11th Annual Conference on Capacities to Govern: Challenges Facing Central and Eastern Europe. These proceedings attempt to provide new and interesting perspectives on the subject for use by both academics and practitioners.

When assembling this volume, the editors had the objective, strongly supported by NISPAcee, to bring together cutting-edge and novel thinking from a wide range of thinkers – from academics to government officials, from young to more experienced – on the challenges of governing in Central and Eastern Europe. This book brings together original and high quality research connected to the main conference theme, but particularly on subjects and countries that have not yet been covered in ‘Western’ Public Administration scholarship.

In order to achieve such a high standard, following upon ten successful volumes of Annual Conference proceedings which aimed at inclusiveness and breadth of coverage, papers selected for the current publication had to go through a rigorous screening process by the editors. Almost all of them were also thoroughly revised to form essays rather than papers. In the end, only 20% of papers delivered in Bucharest are found in this volume. Some excellent papers had to be left out, not because of a lack of quality, but because their topic, style or length did not fit. While the three editors share in the overall work and take responsibility for the final outcome, the editing of the papers that were finally accepted was the sole task of the senior editor, Bryane Michael.

We would like to thank the NISPAcee Secretariat for allowing us to pursue this publication and particularly Ludmila Gajdosova for her continued guidance and support. Juraj Sklenar also provided very able technical support. Helen Reina provided excellent copy-editing for the final versions of the contributions. Most of all, we would like to thank the contributors who allowed their work to be published and often worked extensively with Bryane on edits.

Bryane Michael, Rainer Kattel, Wolfgang Drechsler
Oxford, Tallinn, and Tartu, Mardi Gras 2004
Introduction: The Challenge of Capacity Building in Central and Eastern Europe

Bryane Michael

For much of Central and Eastern Europe, “transition” remains elusive. For political transition, the State was to be rolled back as democratic institutions such as free media, parliament, and “civil society” were developed. Economic transition required privatisation, liberalisation, and industrial restructuring. Yet, by the late 1990s, policymakers and academics realised that the State could not simply be downsized, it had to be “rightsized” (to use the buzz-word of the time). The theory of “downsizing” (for better or worse) had its corpus in the political science literature of decentralisation and local participation and the economic literature of privatisation and liberalisation. Yet, “right-sizing” was an area “without a map” (to coin Scheifer and Treisman’s famous book of the time).

The purpose of these selections from contributions to the NISPAcee 11th annual conference is to contribute to that map by exploring the capacities needed by public sector bodies. The state has a role to play in providing public goods (such as educating the youth of the country) as well as in reflecting the political and social values (such as throwing out parties who turn a blind eye to corrupt privatisation). Yet, “capacities to govern” must be developed – capacities related to setting strategic direction, building capacity to implement policy, and building new ways of financing public goods and services. While it is too early to develop a model of government “rightsizing” and “capacity building”, the papers in this volume should contribute to such a theory. Figure 1 provides the reader with a roadmap for the papers which will follow. The first part of the volume provides an overview of capacity in the region. The second section describes the public perceptions and values which shape the authority and legitimacy of such capacity.


2 The section on health reform was not covered as they will have their own separate volume. For readers wishing to consult the original papers, see http://www.nispa.sk/modules.php?name=News&file=article&sid=46. We would like to thank the session presenters who helped shape our ideas.
Introduction

The third set of papers describes the changing balance of responsibilities between central and non-central government. The fourth set of papers describes methods of financing the capacities to govern and the fiscal reflection of changing national and local level relations. The final section describes some issues related to the positive and negative interaction between the State and society.

Figure 1
Roadmap for Capacities to Govern

Building Capacities for the Present and the Future

Yehezkel Dror starts the volume, putting the capacities to govern in a wider context. In his view, these capacities to govern are needed to steer Central and Eastern European societies through “ruptures in history.” The ruptures can be overcome by “weaving the future” or providing a strategic conception for transition (and post-transition) policy. Economists often note that political and economic outcomes are “path-dependent.” Dror takes this view a step further by arguing that Central and Eastern European policymakers must consider all these possible paths and choose policy based on the best path.

If Dror provides a glimpse into the future, then Martin Potuček provides a glimpse into the present – defining ten capacities of good governance. After defining indicators based each of the ten capacities of good governance, he conducts an expert survey and finds that Central and Eastern European countries are roughly 49% of the way toward the “good governance” of the Western European
countries. However, there are significant differences as Estonia is roughly 76% of the way while Ukraine is about 50%. Together, the reader obtains a broad static view (the current situation) and a dynamic view (over time) of the capacities to govern.

**Changing Perceptions of Governance**

Looking at democratic values of both Western and Eastern society, Michiel de Vries offers a dynamic analysis of value change at the local level in Lithuania, Belarus, Russia, Sweden and the Netherlands. By using policymaker surveys to look at attitudes toward leadership, minorities in decision making processes, participation, conflict resolution, parochialism, central-local relations, and income policies, he finds that “period-effects seem to be most important for explaining value change and that values are especially characteristic for periods and less for generations and age-groups.”

Focusing on a particular country, Katarina Staroňová looks at how policymakers see themselves. Drawing upon her work in the Slovak Republic, she finds that senior Slovak officials often view their jobs quite differently than as defined in their official duties. Such divergences, however, reflect a political institutional structure as “the role of a state secretary depends on the minister and his definition which can range from acceptance of a state secretary as his deputy to the marginalisation of this post.” In 60% of her cases, state secretaries saw themselves as managers rather than leader (20%). Interestingly, only 5% saw themselves as interest group negotiators.

In Donald Fuller’s account of the Czech Temelin Nuclear Reactor, he discusses the relevance of external and internal government perception. Accordingly, Czech policy toward a potentially dangerous nuclear reactor has been swayed somewhat by external pressure groups, yet by the government’s own perception of the status quo. At the risk of over interpreting the paper, the Temelin case shows a “cognitive dissonance” view of an Eastern European government which is only swayed by the force of the EU and the benefits that accession will bring.

**Changing Relationship between the Nation and the Region**

If Fuller sees accession as a powerful driver of Czech policy, Peter Szegvari describes the role of regional policy in accession. Europe, in many ways can be considered a Europe of regions – Szegvari citing Eurostat data for 1998 notins that “there is a more than five-fold differential in income between regions in the EU – the Greek Ipeiros Region has 44 % of the average income of Europe’s regions while Inner London 224 % of this average.” In his view, this Europe of regions will be based on the principles of cohesion, decentralisation and subsidiarity.
Introduction

Tatiana Majcherkiewicz is less optimistic about the role of regions in promoting democracy. Tracing politico-administrative relations in Polish regions from 1989-2001, she finds that spoils system politics has become increasingly entrenched in Polish politics. Most vividly she describes how the change of 1993 led to the politically motivated dismissal of 50 senior employees and during the first hundred days, 19 voivodes (heads of the regional public administration). She also describes the counter-current of the civil service reform and the Civil Service Act of 1996 (and later the Act of 1998) which attempted to depoliticise large sections of the civil service.

Rustem Ablyatifov argues that politics should be in regional government – not for party patronage, but to express the legitimate rights of minorities. He notes that despite Crimean Tartars constituting 12% of Crimea’s population, they constitute only 1% of employees in the Crimea’s government bodies. Looking at the 2002 Ukrainian elections, he describes the methods by which the Crimean Tatars were able to increase their electoral representation in local councils – going from a situation of almost no representation to increasing representation (such as 39% of the Belogorsk rayon council).

Financing Capacities to Govern

The fiscal decentralisation concomitant with political decentralisation often also exhibits the same opportunities and risks. Bartlomiej Gurba describes both the opportunities and threats posed by decentralisation in Poland. Looking at central government transfers to the local governments (gminas), these may add up to about 40% of total local revenues – but these transfers vary between about 10% to 90% depending on the locality! He also finds that localities which tax less have higher debts.

For Ildar Zoulkarnay, borrowing between the central and regional level is less an issue than transfers between them. He finds that budgetary incentives are not provided to local governments because of the instability of tax rates (and tax sharing arrangements in federal and Bashkortostan legislation) and the under-funding of public infrastructure due to inadequate calculation and finance of expenditure needs. If Gurba finds evidence of significant vertical inequality, Zoulkarnay finds horizontal inequality. For example, in terms of local tax revenue for 2001, the Mishkinski rayon collected the least – approximately 10.5 US dollars per capita – while the Krasnokamski rayon collected the most, raising approximately 165 US dollars per capita.

Both vertical and horizontal inequalities often stem from what Herrington J. Bryce calls “unanticipated budgetary consequences of devolution.” In the Russian context, he notes how the devolution of responsibilities by the Federal government has not been matched by the devolution of funds (or funding
sources). Current centre-region relations promote deficit finance of local government responsibilities – a relation which should be changed. Budgetary allocations should also be changed reflecting the inter-regional nature of spending such as on hospitals where service users come from other regions. Inter-regional structures such as water or sewer districts and the establishment of “public authorities” could also help.

One way of alleviating the local government financial pressure is to find local revenue sources. Phillip Bryson and Gary Cornia describes the property tax as a local revenue source which represents a “missed opportunity for fiscal decentralisation” in the Czech and Slovak republics. While in the Slovak Republic such taxes accounted for roughly 10% of local revenues in 2000, in the Czech Republic they only accounted for 2%. Instead, Czech localities were more reliant on transfers from the centre – and these made up roughly a quarter of local budgets. For Bryson and Cornia, these two countries depict a trade-off between stability and autonomy. While relying on local finance is less stable, local finance ties local budgetary decisions to local political leaders.

Managing the Relationship between the State and Society

The quality of local level service is affected by more than the degree of political or fiscal decentralisation. The nature of interaction between the public and private sectors affects local service delivery. For Kristiina Tõnnisson, the quality of local service – in the Estonian context – depends upon deep seated national information policy. Drawing on fieldwork data, she found that information provided by local authorities was often lacking (in late 2002, only 137 out of 247 Estonian local authorities had their own webpage). She also finds that information flows within the public sector itself and from public service users to the Government are often inadequate. For her, “good governance” is difficult to achieve if information needed to identify and serve citizens’ needs is lacking.

While information exchange may be a critical element in functional public-private relations, for Pavel Ovseiko such information often leads to adverse incentives for service delivery. In the Hungarian context, the three seemingly positive developments of democratisation, liberalisation and decentralisation have been attendant with increased “business capture” of the medical profession – resulting in 30%-40% of doctor-patient encounters not being justified on medical grounds.

Yet, corruption and poor governance are not unique to Hungary. Mungiu-Pippidi and Sorin Ionita describe corruption and governance trends generally across the region. If corruption exists, it is due to “amoral family-based policies” of the ruling elite who look out for their own interests before those of the nation. Worse yet, 59% of Romanian respondents affirm to have been “mistreated by a
civil servant after 1990.” Such mistreatment helps explain the low level of trust in government (in their regression analysis, it is THE explanation).

If corruption undermines the capacities to govern, action can be taken to reduce corruption. Mantas Jonauskis looks at the anti-corruption programmes undertaken by Lithuania. Noting the extensive legislative and institutional framework for preventing corruption, he notes 8 different anti-corruption courses in public administration courses and 8 government bodies who provide highly specialised anti-corruption training. He also offers recommendations for a specific “model” anti-corruption programme based around civil servant ethics and probity in public-private relations.

References


Section I

Building Capacities for the Present and the Future
Gearing Central and Eastern European Governments Towards Weaving the Future through Ruptures in History

Yehezkel Dror

Facing Ruptures within Ruptures

Certain governmental tasks have been required of all states throughout history, such as assuring collective security, collecting taxes, providing services, and building infrastructure. These tasks require governmental qualities that are quite universal, such as having strategic foresight, the ability to manage administrative “machinery”, and the possession of considerable military skill. However, many tasks and required qualities are not universal, but depend on specific historic periods, and the concrete situations characterising these periods and the dominant values of the time. The methods of assuring security during a conventional war are, for example, different to those used when faced with biological or nuclear terror (or no concrete threat at all). Governmental functions also depend on the country’s income level – poor countries, for example, require governments that engage in certain functions, such as distributing food during draughts and famines, while rich countries are able to focus more on other, less basic, functions.

Governmental values also affect the tasks and qualities of government required for social services. Countries with Western democratic values require very different tasks and governmental qualities than Islamic countries. Even within Western democratic and free-market economies, significant differences exist between countries which have social democratic values as opposed to those having libertarian values – and between governments which take the responsibility for “weaving the future” as opposed to those which view such activities with suspicion. Given such different values (and despite the collection of fashionable ideas under the term “good governance” which presumably fits all countries), no

1 For detailed discussion of some of the main issues taken up in this paper, see Yehezkel Dror, The Capacity to Govern: A Report to the Club of Rome (London and Portland, OR: Frank Cass), 2002.
single optimal model can serve as a base for proposals and priorities that seek to improve the capacities to govern in general, and capacities to “weave the future” in particular.

Our epoch is characterised by rapid and radical nonlinear changes – “ruptures in history” – such as those attendant with Globalisation and the increasing capacity of a fewer number of “fanatics” to kill an increasingly greater number of people. The creation of the European Union also represents a major rupture in history, as does Central and Eastern Europe’s transition from political Communism and economic central planning to democratic, market-based economies. These radical transformations require governmental qualities and the imposition of machinery of government tasks that are quite different from those characterizing periods of relative stability.

To address these ruptures, governments in Central and Eastern European countries will need to develop capacities to “weave the future” – namely to steer their societies through ruptures in history. In particular, five major ruptures may be noted, including the rupture from Communism to Democracy, from command economies to market economies, from Communist Bloc membership to (more or less active) membership as independent countries in the global community, from membership in Comecon to membership in the European Union and NATO, and evolution from a Eastern European culture towards a Western and global culture.

These “local” ruptures are taking place within global ruptures in history, which are largely driven by scientific and technological change, combined with the mutation of values. Globalisation represents the first global rupture that is particularly relevant for Central and Eastern European countries, and which includes changes in the economy, cyber-sphere, and many aspects of culture. The transformation of employment patterns characterised by harsher global competition and growing structural unemployment represents the second global rupture, while demographic shifts represent the third rupture. Such shifts correspond to the rapidly aging populations in most Western countries (leading, amongst other things, to the breakdown of pension schemes), as well as the rapidly expanding young populations in many of the Asian and Middle Eastern countries – resulting in mass migration from lesser developed to highly developed countries. The fourth global rupture comprises changing security threats due to the increased killing effectiveness of fanatics (who are increasing in number and who are now more easily able to obtain highly lethal weapons) and emerging confrontations between parts of the Islamic and Western worlds. Geo-strategic shifts comprise a fifth rupture, which has led to increased competition by nation-states for global hegemony. Value instability represents the final rupture, and is characterised by contradictory pressures toward cosmopolitanism and tribalism. The results of these ruptures have been changes in the nature of governments and politics,
resulting in eight implications for Central and Eastern European countries: these are shown in Figure 1.

EU accession – and the future adoption of the euro – constitutes one of the most important ruptures in history for Central and Eastern European countries – radically changing the very nature of the state and of politics. Despite all the differences between Central and Eastern European countries, they are all historically situated in such “ruptures within ruptures”. The development of capacities to govern is necessary in order to steer societies through such ruptures, towards a thriving future (however difficult this is to specify). Governments need to breach the rupture; they need to “weave the future.”

**Government activity would not be necessary** if non-governmental institutions and their activity could “weave the future” (and if they were democratically entitled to do so). Crucial domains are, however, unavoidably the responsibility of governments, especially in Central and Eastern European states, where markets and civil societies are not fully developed, and governments must develop the social architecture needed for socio-economic transformation and integration into the European Union.

**Figure 1**

Global Ruptures and Changes in Government and Politics

1. Growing *importance of mass media*, making "political marketing" critically important, with "spin" increasingly dominating decision-making.
2. Growing *costs of success* in politics and consequently increasing corruption.
3. *Decreasing public trust in governments*, together with decreasing willingness to accept political decisions and increasing involvement of grass root activists, NGOs, other civil society entities, and “street action” movements promoting “ungovernability”.
4. *Societal traumatisations*, especially pronounced in transition countries lying in-between regime types, leading to apathy and protest.
5. Increasing *dominance of "market ideology"* militating for less governmental activity and increased value attached to "money making" (in contrast to a public morality of duty and responsibility).
6. Rising *importance of "green" values* which impose costly goals on government, and which can pose often insurmountable hurdles to many development projects.
7. Tendency towards the *fragmentation of power* which makes unstable coalitions frequently unavoidable.
8. Increasing *importance of senior politicians* and increasing power of skillful presidents and prime ministers, both within government, and also in terms of influencing public opinion.
Governments in the region, however, face serious difficulties in “weaving the future”, in terms of increasing dependence on external dynamics, combined with larger scales of governance requiring higher levels of government intervention, which, for some crucial issues, can only be handled at the global level. Such external dependence applies to all the countries in the region, but especially to the relatively small and resource-poor Central and Eastern European countries. The transfer of powers and functions to EU bodies will result in diminishing governmental authority and autonomy of governments in the case of accession countries. Uncertainty, unforeseen effects, the lack of reliable policy theories, and the scarcity of promising policy options are also inherent difficulties for “weaving the future” and for mending ruptures in history. Fashions and fads in “good governance” focus attention on popular measures such as “new public management” and “e-governance” – diverting such attention from real needs, and preventing the allocation of international assistance to necessary core capacities for governance and for “weaving the future”. Political pressures also pose difficulties, such as short-termism (especially at the cost of future generations which cannot vote today), strong resistance to the creative destruction needed for adjusting to ongoing historical ruptures, and the fragmentation of political power (in combination with a strong, but narrow, range of actors pushing for non-decisions or compromises, which often combine the worst features of various options).

Yet, part of the blame for governmental weaknesses in “weaving the future” lies with government itself. All contemporary governments – and especially many Central and Eastern European ones – are under-equipped for steering their societies through ruptures within ruptures, and are not taking advantage of the opportunities that are available to upgrade their ability to weave the future.

Elements involved in “Weaving the Future”

“Weaving the future” requires six elements that are especially pertinent for Central and Eastern European countries. Efforts intended to influence the future are, in essence, interventions with historic processes that are undertaken to reduce the probability of bad futures, to increase the probability of good futures, and to prepare (as far as possible) for the inconceivable. The method by which such an intervention can be assessed is listed in Figure 2.

---

2 The elements presented are only a sample intended for clarifying the demanding work involved with “weaving the future” and the consequent need for building required government capacity.
Figure 2
Steps in assessing interventions in historic processes

1. Clearly define “good” or “bad” futures (which may change with time).
2. Consider possible “evolutions” of historic processes, and evaluate each possible evolution, paying special attention to serious dangers, significant opportunities and indeterminate shifts.
3. Clearly define assumptions concerning the “drivers of the future” (namely the main variables shaping the direction of historic processes). Identify a subset of such drivers which could be influenced by policy, and which could therefore serve as policy instruments.
4. Develop the political will and resources needed to apply the policy instruments (and thus to intervene with future-making historic processes).

Such an assessment is demanding, requiring a proficient analysis of historical trends, and the ability to foresee future possibilities, given extremely limited knowledge and reliance on theories which are removed from common experience and pragmatic habits.

**Such interventions often require tragic choices.** The value choices inherent in attempts to weave the future are politically difficult, in that they involve tragic choices in choosing between values and goals which are all very important – such as the choice between helping the needy now versus promoting the welfare of future generations. Such choices involve the allocation of scarce resources in order to minimise short-term bad outcomes while simultaneously maximising good outcomes for a range of goals over longer time horizons. The capacity to make moral and value judgments, as well as a strong political will, effective social marketing and financial scenario analysis are all required in order to be able to cope responsibly with the gamut of promising but risky, as well as less promising (but less risky) options.

**Minimising the tragedy of these choices often requires creativity in finding and inventing policy options as well as innovative implementation capacities.** Ruptures in historic continuity reduce the relevance of previous experience and often make previously effective policies obsolete. Creativity in finding, developing, and implementing policy options is necessary for “weaving the future”, as most of the issues faced by Central and Eastern European countries are unprecedented – resulting in a dearth of reliable options and relevant theories, combined with bureaucratic inertia, political and social frictions, and “tyrannies of the status quo”.

To cope with historical “ruptures within ruptures” governments may need to initiate ruptures. EU accession is an example of such a rupture-initiation – aiming at setting a county’s future onto a radically different and hopefully better histori-
cal path. Such an unusual (though not unique) strategy fits situations in which all alternative futures within a prevailing historical path are unappealing, or where opportunities exist to leap onto a more promising path. Rupture initiation is a very demanding strategy, especially if it is practically irreversible – as in the case of EU accession. Applying to join the EU is a clear-cut choice and was relatively easy to make (despite the difficulties of negotiations and getting domestic approval). Joining is, however, only the first leap onto a radically different historical path, characterised by a long-lasting stream of difficulties and opportunities. EU accession is a major “future-weaving” act, requiring outstanding governmental capacities.

Initiating ruptures always involves fuzzy gambling. All choice in the face of uncertainty (including doing nothing) involves a gamble. When uncertainties cannot reliably be assigned statistical probabilities, or when alternative futures include imponderables, the choice becomes a “fuzzy gamble” – especially in a period of ruptures. The major choices facing Central and Eastern European countries – including important aspects of joining the European Union and acting within it – are fuzzy gambles. Improving the outcomes of fuzzy gambles requires better tools for dealing with uncertainty, as well as moral and political capacities to choose between different bundles of partly unknown (and also unknowable) outcomes. The psychological ability to accept and to cope with ambiguity, to learn quickly, and to cope well with crises also requires the radical upgrading of governmental capacities.

Managing such fuzzy gambling requires thinking and acting in terms of alternative futures. The overriding mental framework that is essential for “weaving the future” requires the ability to imagine alternative futures. Such envisioning requires the preparation and periodic updating of realistic scenarios stretching 20 to 25 years into the future.

Upgrading Central and Eastern European Capacities to Weave the Future

“Weaving the future” requires significant changes in governmental capacities. The emphasis on the future does not downgrade the importance of present routine governmental tasks, such as taking care of the current population’s needs and providing a variety of public services. Upgrading core capacities to work for a better future requires improved efficiency and effectiveness in short-term governmental tasks – as public service is both a democratic value and a political necessity for obtaining the support needed for long-range policies. Prioritising the future does, however, necessitate allocating less attention and resources to present needs. Given that future generations do not vote now (thus taking care of them is often difficult politically), changes are needed in governance structures, in political behavior and in the methods used to inform public opinion.
While some proposals deal with the machinery of government and public administration, political changes are especially important if changes in public administration are to have a significant impact on governmental capacities. Corrupt politicians inevitably promote corruption in the ranks of the civil service (regardless of the measures taken to reduce corruption in public administration). Short-termism politicians can frustrate the upgrading of professional policy planning, however good the work of strategic staff may be. Whilst becoming a member of the European Union could provide many benefits, EU membership could also lead to a bleak future, unless positive long-term policies are adopted by the current governments of Central and Eastern European countries. The following nine recommendations may promote the long-term policies that are necessary to “weave the future”.

1. **Facilitate better public understanding about main policy issues.** Better public understanding of the main policy issues (without resorting to propaganda) is necessary for broader support for future-weaving measures. Revising and expanding civic affairs subjects in high schools, the introduction of university courses and seminars on national, regional and global issues, upgrading the training of mass media commentators so that they fully understand the main policy issues, and supporting multiple independent “public interest” television stations, websites and publications are all activities which could facilitate such public understanding.

2. **Upgrade government morality.** Increased governmental morality is a moral imperative, and is also essential for maintaining public trust in government. Strict enforcement of anti-corruption laws, regulation of electoral expenses and the enforcement of codes of conduct for politicians are all mechanisms that would be useful for upgrading morality within government.

3. **Assure the democratic concentration of power (with safeguards).** In opposition to much of the present discourse on “good governance”, the concentration of democratic power is essential for weaving the future. Such concentration permits choices which are painful in the short term (but beneficial in the long term), enables a focus to be placed on substantive issues without too much distraction from immediate political and PR needs, and also facilitates the development of a comprehensive and holistic policy perspective (as opposed to narrow ministerial tunnel-visions). Power can be democratically concentrated through constitutional amendments establishing prime ministerial or presidential forms of government. Safeguarding such power can be achieved by strengthening policy deliberation

---

3 Prime ministerial and presidential regimes are risky, because much depends on the personality of the head of government. To reduce the dangers, safeguards must be strengthened without undermining the advantages of democratic power concentration – such as providing the chief executive with the power to force parliamentary elections once per term or to grant a special parliamentary majority the authority to force a new election for the chief executive and parliament.
within parliament through requirements aimed at obliging government to submit serious policy papers, and setting up special constitutional courts with oversight authority.

4. **Build a central “strategic brain”**. Action without purpose and without strategic planning is foolhardy. The development of a central strategic brain in government is crucial to guiding policy action. The development of such capabilities could involve the establishment of a body of professional strategic staff near (or directly underneath) the head of government and in the main ministries – with their co-ordination facilitated by the establishment of an internal network. Parliaments should also be equipped with adequate policy evaluation units that are able to assess the long-term implications of the suggested policies.

Long-term strategic thinking should also take place in think-tanks removed from the “hot corridors” of government power. These think-tanks should be composed of professionals with a wide range of experience and academic backgrounds. Given that such policy planning professionals are scarce in Central and Eastern Europe, top quality post-graduate programmes in public policy must be established and upgraded throughout the region, while shorter courses could also increase the number of qualified policy advisors.

5. **Upgrade the understanding of situations and dynamics**. Efforts to influence the future require a solid empirical and analytical grasp of the present situation and highly qualified mapping and understanding to determine the dynamics of the changes that are seen or predicted. National estimation capacities must be upgraded, with special attention paid to the relevant historical dynamics of the country. Independent estimation units are an important component of the strategic brain of governments, as their work must be protected from political and bureaucratic pressures.

6. **Institutionalize appropriate choice processes**. The thorough understanding of dynamics through professional analysis is in vain unless decision processes are structured in a way that ensures that all options are adequately presented, considered, and acted upon. Among other things, this procedure involves regulating agenda setting, option costing, the clear allocation of authority and responsibility for implementing decisions, and mechanisms of follow-up and evaluation. Such systems would minimise the likelihood of widespread errors resulting from options not being considered, from over-fixation on optimistic estimates of outcomes, and through inadequate consideration of the likely side-effects and unanticipated consequences.

7. **Improve governmental learning**. Decisions require follow-up, adjustment to unanticipated developments and continuous improvement based on learning from the results – especially when attempting to “weave the future” while facing historical ruptures which cause many decision outcomes to differ from expected outcomes. Simply delegating follow-up analyses to the implementing
bodies alone is less effective than also entrusting independent and autonomous units with evaluation and recommendations for “course-corrections”. While the establishment of separate evaluation units is at variance with usual governmental practice and even existing incentives, these entities can play a key role in helping to “weave the future.”

8. Assure high-quality crisis coping. Crises are inevitable, especially in the current epoch of nonlinear change and ruptures. Crises pose serious dangers and also provide important opportunities; thus, high quality central crisis management units (staffed with crisis management professionals with access to the top levels of government) help assure effective crisis management and also ensure the maximization of crisis utilization.

9. Provide politicians with learning opportunities and incentives. Outstanding strategic policy advice, necessary for effective weaving of the future in an epoch of rapid change, is essential but alone, is insufficient. Politicians must also improve their “strategic mind”, in terms of understanding historical dynamics, and must also learn to become capable of thinking about, and deciding for, alternative futures. Politicians must therefore be provided with incentives to learn, and with learning opportunities. National, or regional, policy colleges should be established where politicians (together with a mix of policy advisors, academics, civil society leaders, and business executives) deliberate on the main national long-term policy issues in-depth and off the record. Providing television coverage of politicians after participating in such activities could provide a possible incentive, in the form of PR.

These proposals leave many additional possible recommendations for separate consideration. Central and Eastern European countries should become active in global and European Union affairs (to compensate for reduced national autonomy and to contribute to better “shared futures”). The governments of these countries should also be endowed with new institutional structures, for example a new type of senior civil service promoting knowledge-intensity and innovation in government. Implementation capacity must also be upgraded, otherwise the best future-weaving decisions are only “foam on the streams of history”. Important innovative projects could, for instance, be implemented outside the regular bureaucracy and with the aid of modern project management methods.4

4 The further elaboration and implementation of these proposals will require the collaborative work of regional specialist decision makers and professionals.
Conclusion

Incremental improvements are clearly inadequate for achieving the required level of capacities in Central and Eastern European governments, but “big bang” type governmental and public administration reforms are not feasible, carry high transition costs and may well be counterproductive. A “modular selective-radical redesign strategy” should instead be implemented, with radical redesign of selected critical features of governments in modular sets and with design priority being given to reforms which may serve as locomotives for further reforms. While the appropriate choice and sequencing of redesign depends on the particulars of each country, a minimum initial sub-set of reforms should include intense professional policy training, setting up high quality strategic staff groups near top decision-makers, and achieving a critical mass of democratic power concentration. Implementation of these reforms will require good ideas and qualified professionals, as well as political will and the determination to upgrade governmental capacities to weave the future, along with the willingness to pay, if necessary, a political price for acting for a good future for all.
The Capacities to Govern in Central and Eastern Europe

Martin Potůček

Introduction

The damage caused by bad public policies and administration is often much more serious than the damage resulting from natural disasters. Bad public policy arises not only because of historically contingent ways of treating public affairs, but also due to the lack of policymaker readiness to cope with the entirely new challenges presented by “globalisation”. As Dror (2001) notes, “the on-going Globalisation raises an urgent question of whether we are able to govern so as to avoid the bad and promote the good. If the [sic] governments fail to master the problem, it will mean not only an escape from democratic responsibility but also a failing leading most likely to the [sic] very undesirable and perhaps even catastrophic consequences in the future” (10). In the Central and Eastern European region, the problems generated by Globalisation are further aggravated by specific factors that arise from the stresses, demands and handicaps of economic and political transformation.

This paper focuses on analyzing the key points in the articulation of the interests of differentiated social actors and their moderation and transformation into accepted public interests via constitutional, administrative, and political frameworks. Despite the considerable differences existing in the post-communist countries, some more general characteristics may be delineated, stemming primarily from the legacy of communism, in combination with the specific features marking the period of transformation in the 1990s. These include a striking

---

1 The author expresses gratitude to to Mr. and Mrs. Andruch from NISPAcee Secretariat in Bratislava who helped process the expert survey data and to Mgr. Martin Nekola from CESES Prague for further data processing and for creating the graphs and tables in this paper.
imbalance between the limited capacities to govern and the demanding internal conditions and external factors under which governance runs.

Given such a transformation, policymakers need to understand, through rigorous analysis, changes in society and within its “steering structures”. The relationship between political, economic and media power – as well as the qualities of the constitutional and political system – need to be studied, as does the environment in which public-interest led policy is implemented. The political system includes the study of its institutions, especially its legislative bodies and political parties, as well as the public administration, including the relationship between politicians and administrators, coordinative mechanisms, crisis management, audits and the education of civil servants. The problem of public involvement and the responsibility of citizens is also taken into consideration.

There is an increasing interest in studying the capacities to govern in an international comparative perspective. Let us mention at least some of the ongoing projects: Corruption Perceptions Index (comparing the perception of corruption, used by Transparency International), Global Barometer (evaluating qualities of political institutions), World Business Environment Survey (the investment environment), Civil Society Index (the evaluation of the state of civic society, developed by CIVICUS), the second generation of Governance Indicators (quality of governance, the World Bank), Governance Quality Index (social, economic, political and civic conditions of societies under scrutiny), or World Competitiveness Yearbook (measuring economic competitiveness). These projects have different designs and aims, but a similar philosophy and methodology: to use available data to compare different countries, in order to help them to learn more about their strengths and weaknesses, and to help the decision-makers to react to these findings through adjusted public policies.

This paper attempts to contribute to this effort by presenting a general description of the state of governance in post-communist Central and Eastern European countries. The findings presented in this paper are drawn from a study of the Czech Republic, as well as the results of an expert survey carried out in April 2003 at the 11th Annual Conference of the Network of Institutes and Schools of Public Administration in Central and Eastern Europe (NISPAcee) in Bucharest. The survey brought together a total of 78 experts from 23 countries.

The Ten Criteria of Good Governance

The definition of “good governance” starts with the identification of the diverse social interests and their expression in well-articulated public interests. Good governance encompasses methods of seeking, setting, implementing and evaluating public policies, which cover the various present and future public interests in a society. An important part of such governance is performed by national public
administration, and is executed in “competitive collaboration” with business and civic sectors.

The development of a more responsible and competent method of governance calls for measures to enhance government efficiency, openness and transparency, while promoting the involvement of citizens and civil society institutions in public affairs. Such a method of governance would reduce barriers to communication between politicians, civil servants and citizens, through a broad-based and on-going debate about key political priorities and measures of implementation, a debate that should be conducted by civil society organisations. Such governance would open a public space, allowing the direct participation of experts and citizens in the formulation of public interests, in drafting policy proposals, and implementing and monitoring public policies. It also reduces the space for the distortion caused by illegitimate intervention of private interests.

There are several critical factors that affect the efficient management of public interest articulation. From the experience of the Czech Republic, ten criteria for “good governance” can be defined more broadly for Central and Eastern European countries (Potůček, 1999 (a); Potůček, 1999 (b); Potůček, 1999 (c); Potůček, 2001; Potůček, 2002; Purkrábek et al., 2000).

The first factor contributing to good governance is an analytical basis for decision making. Such an analytical basis consists of the “cognitive environment” which allows decision-makers to find comprehensive evidence about public policy problems, their determinants, alternative ways of solving them, threats and opportunities attendant with these solutions, as well as ways of avoiding potential threats and making full use of emerging opportunities. The establishment of advisory units, which would co-operate with political leaders, senior administrative officials and specialists in the area of formulating and implementing various public policies represents an important means of building such a decision making analytical capacity.

Communication in the public space represents a second important factor contributing to good governance. The Rotterdam Program for Governance and European Integration (Rotterdam 1997) deals with the tasks of developing administration within the context of European integration, particularly in Central and Eastern Europe.\(^2\) Public administration effectiveness is inseparably linked with a vibrant civil society (without which fair and efficient policy is less likely). Administration carried out solely by Government is not able to, nor is capable of, responding adequately to the real needs of the people in many areas of public policy. Governments must search for partnership, co-operation, and joint deci-

---
\(^2\) For more information, see Rotterdam Program for Governance and European Integration published in 1997.
sion making with the civic sector. Policy-making councils are an example of such a partnership, as these councils consist of government representatives, citizens, and the different interest group organisations that serve to help identify the broadly accepted public policy methods of implementing these policies.³

The need for **strategic thinking and governance**, or the coordinated and renewable search for, and establishment of, priorities for a particular state and society, through an on-going dialogue, gained prominence during the 1990s. The responsible selection of priorities allowed countries such as Finland, Ireland and Taiwan to “work their way up” to lead an imaginary race with the group of prosperous and rapidly developing countries while simultaneously solving considerable domestic problems. Conversely, countries which did not search for such priorities fell behind.

The **democratic mediation of interests** represents a fourth factor of good governance. Political scientists are currently analysing the reasons for the declining interest that citizens have in public affairs, and particularly for their declining willingness to be engaged in the administration of public affairs. Such a decline is attributable to the crisis of the traditional system of interest representation caused by the constant decline in confidence in government and its institutions. If the proportionality rule applies – in the sense that the more irresponsible the citizens are, the more unaccountable are governments – then the outlook for the future is bleak.

Public interests crystallize from clusters of heterogeneous individual, and group, short-term as well as long-term interests. The more successfully Government listens to the views of citizens (including minorities, the poor and marginalized) as well as to the views of business representatives, and the more the Government tries to find the broadest possible common denominator underlying their interests, the better the results. Social change occurs so rapidly, however, that any particular system representing the interests of these groups in society lags behind the requirements of time. The use of several channels in the evaluation of both existing and proposed policies should increase the overall efficiency of governance. Representative democracy needs to be complemented with participative democracy (connected with strengthening the civic sector’s political access) and with direct democracy (through the introduction of referenda, electronic forms of articulation and reflection of social interests, and legal forms of lobbying.). A possible governmental response is to encourage large-scale participation in public policy, where citizens engage themselves in political parties, representative governmental bodies and in civic associations, as well as in public hearings.

---

³ Civic sector institutions should be drawn into administrative activities (governance) without losing their initiative and independence in the process. Government involvement should aim at sharing information, having regular consultation, and in the end, building consensus among the parties involved.
discussions, referendums, and petitions. Civic and political education, if taught engagingly, may also contribute to good governance (especially in the long-run).

The transparency of political parties is a fifth factor in good governance, as the role of political parties in the mediation of interests will always be crucial. Political parties do – and should – undergo a process of internal transformation and renewal. Their fundamental problem (except of those that managed to “survive” from the pre-1989 era) consists of small memberships – providing too small a base for selecting competent political leaders. There are also shortcomings in the political training of both party members and non-members, in the generation of programs, internal management of party organisations (including personnel policies) and in intra-party democracy in the Czech Republic (Potůček et al., 1999). Attempts at increasing the transparency of party finance have failed so far – putting their popular legitimacy into jeopardy and fomenting popular scepticism about their readiness to play the role ascribed to them in the Constitution. Popular interest in joining and working for political parties stagnated in the 1990s in the Czech Republic. According to survey data, from the mid 1990s to 2003, only 3% of the adult population declared themselves members of a party, and only an additional 3% have declared a potential interest in joining a party (Potůček 2000, Frič et al., 2002).

The accountability of the government is the sixth factor in good governance. In the Club of Rome report devoted entirely to the capacities to govern, Dror (2001) points out the vital importance of continually strengthening the capacities of public administration on the regional, national and especially global level. Such capacity strengthening comprises the continual improvement and enrichment of public administration functions – allowing government to adapt and respond quickly to changing conditions. The strengthening of capacity also entails making government more accountable to citizens’ needs. Public administrations should be more professional and effective. Capacity building will be complicated and difficult, requiring firm and resolute political support.

Paradoxically, the removal of Communist party power has removed the supervisory superstructure that generated the fear that was important for State-inspired restraint and control. Control over State activities has been asserted in many Central and Eastern European countries with a considerable delay; many officials in the meantime have taken advantage of chances to abuse their public positions in order to gain personal benefits. The U.S. General Accounting Office has at its disposal hundreds of highly qualified specialists in domains such as law, public finance, public policy and public administration. Such supervisory auditing capacity determines not only the way financial funds are handled, but also, and especially, the extent to which, and the efficiency of which, a given office is able to carry out its mandate. Systems of internal and external control in Central
and Eastern Europe do not generate comparable pressure to guarantee the observance of regulations and ethical codes.

The **interweaving of politics, the market, and the media** is a phenomenon that contemporary democracies attempt to manage. What is necessary here is to prevent the misuse of the media by biased economic or political interests, as well as the misuse of politics by strong economic interests. The societal transformation of the 1990s offered various actors considerable space to benefit from unjustified enrichment through the non-transparent exercise of influence on political decision making. The large transfers of property in the region from the public to the private sector were conditioned on personal relations between economic and political elites, an inadequate legal framework underpinning privatization and the functioning of banks and other financial institutions – resulting in the massive misappropriation of public property. As Lindblom (1977) concluded in a clear-sighted way decades ago, the entire economy and society would fall under the yoke of clientelism sooner or later if no robust and controllable means were in place for preventing such an interconnection. The majority of citizens are the losers from this process, as they do not have access to the uncontrolled and undeserved sources of wealth and power. Such widespread losses radically undermine the legitimacy of the whole political arrangement. Future imperatives will include continued improvement in the regulation of privatisation, financial markets, public and privately-owned media, public procurement contracts, political party finance, and public sector supervision.

The social transformation has also seen the rise of media power. At the time when traditional democratic institutions were forming, newspapers were brought to their readers by coach. While the political system has hardly changed since that time (the functioning of the state is still based on the division of power among the executive, legislative and judicial branches of government), the media has changed significantly. The media is becoming increasingly electronic, encircling the globe with an ever more compact network. The focus of power – namely the ability to influence people’s thoughts and actions – has shifted dramatically away from rule-bound political and administrative institutions. Power has instead shifted toward media editorial offices, especially those of television. Institutions responsible for regulating the media emerged in the early 1990s, with the legislators having only little media regulatory experience at that time. In the case of publicly owned and operated media, the danger that such media may succumb to the political party currently in power remained present – as demonstrated during the crisis generated by the appointment of a new director of the public TV station in the Czech Republic at the end of 2000. As for the privately-owned media, they have immense freedom in the style and substance of their broadcasts, and there is a large scope for making mutually advantageous informal deals between politicians and media actors. Sound regulation of both
public and private media is required. Media councils lag behind hopelessly in their ability to guarantee equal access to the information channels and to encourage balanced media reporting.

The eighth factor of good governance is an **appropriate approach to social exclusion**. The European Union promises to be a means for new Central and Eastern European member states to become more influential actors in the global regulatory regime. Nevertheless, the European Union is split as to whether to promote economic efficiency or (social) quality of life for all. The Copenhagen criteria for accession (1993) were designed more as a technical (economic and political) instrument rather than as a tool to steer living conditions in the candidate countries. In the criteria, legal, economic and political issues prevailed, while social ones were marginalized – being reduced to the preservation of individual human rights and the building of a loosely defined institutional framework. In the meantime, multinational corporations benefited from new markets created in the accession countries caused by changes in social welfare policy. National pension system reform opened the doors for private insurance funds by introducing the compulsory private insurance. Such reforms offered lucrative markets, as post-communist governments lacked strategic thinking, the necessary skills and also, to a considerable extent, the legitimacy to develop their own insurance markets (Deacon *et al.*, 1997). Their regulatory capacities were much weaker than those of the current EU member states – where the impact of Globalisation on Welfare State (s) was much less influential (Ferrera-Hemerijck-Rhodes, 2001). Due to this neglect of the social dimension of transformation, the implementation of the ambitious goals of the EU Lisbon Strategy, including the preservation of social cohesion and life-long education, will face serious difficulties in the new Central and Eastern European member states.

Good governance cannot be implemented without education in public policy and administration. The Czech Republic was infamous among Central and Eastern European countries for the absence of a self-contained system of civil servant training, either through specialized university-level education or in the form of in-service training. This situation changed in 1998 with the formation of the Department for Public Administration Reform within the Public Administration Section of the Ministry of the Interior. In 2000, the Government adopted a document establishing the Institute for State Administration, which provides analytical, educational and coordinative functions at the central level of the State administration. A holistic and

---

4 After 1989, transformation of Central and Eastern Europe brought about social problems that influenced the life and perceptions of the population in the candidate countries such as the spread of unemployment and poverty, new health problems, ethnic tensions and conflicts. The incidence and seriousness of these and other problems differ significantly around the Central and Eastern Europe region. In some countries, dual systems (corrupt black market services) have developed in the health care and education, associated with the overall deterioration of social security and educational systems.
integrated system of civil servant education and training in the central State administrative bodies is, however, unlikely to develop before the end of the decade.

The tenth and final factor for good governance involves the consideration of the global context of policy making. The imbalance between established modes of governance and the external conditions affecting such governance is growing. Governance systems in industrial societies with clearly defined social structure rely above all on national State institutions. Economic Globalisation, global perils to the environment, and the onslaught of new information and communication technologies comprise these changing external conditions, as do new security risks. Present modes of governance are lacking the adaptability to these external changes, putting in jeopardy the quality and sustainability of life and, in some instances, even fundamental human rights. Early and consistent reform in public management and administration is needed, but the necessary intellectual, organizational, motivational and material resources have been lacking and, where present, insufficient.
**Figure 1**
List of Good Governance Indicators

1. **Analytical basis for decision making**
   - Availability of professional advisory capacity
   - The government nurtures advisory institutions, takes their recommendations seriously and strives to implement recommendations

2. **Communication in public space**
   - Government partners with the civic and commercial sectors
   - Functioning of tripartite institutions
   - Operation of policy-making councils
   - Organisation of public hearings and discussions
   - Existence of public communication competencies

3. **Strategic thinking and governance**
   - Existence of capacity to prepare and approve strategic decisions at all levels of public administration
   - Development and discussion of national visions, strategies and doctrines
   - Co-ordinated preparation of departmental and cross-departmental middle-term visions, policies and plans
   - Existence of an effective system of implementation and updating of approved strategies

4. **Democratic mediation of interests**
   - Smooth operation of representative democracy without major disruptions
   - Existence of complementary mechanisms of participatory democracy (involvement of non-profit organizations in legislature and the legal regulation of lobbying)
   - Existence of complementary mechanisms of direct democracy (referenda, petitions, electronic forms of interest articulation and expression)

5 Such advisory capacity can exist within or outside of the Government and can include consultants within the government, independent think-tanks, and academic research institutes.
5. Transparency of political parties

- Functioning of intra-party democracy and the prevention of the formation of oligarchy
- Transparency of political party finance and submission to regular external checks
- Development of a system of political education of party members
- Political parties attract new members
- Popular perception of political parties as the legitimate vehicles of interest mediation

6. Accountability of the government

- Effective system of intra-mural control in public administration units
- General Accounting Office and/or corresponding independent institutions executing extra-mural performance and budgetary audits
- Right to appeal to administrative courts
- Functioning of Ombudsman (ombudsmen) institutions
- Charters of citizens’ rights, patients’ rights, consumers’ rights

7. Interweaving of politics, the market, and media

- Prevention of political elite economic favoritism in decision making
- Prevention of corruption at all levels of government
- Effective regulation of the public sector media
- Effective regulation of private-owned media
- Equal access to media by all competing political actors

8. Approach to social exclusion

- Establishment of long-term policies identifying social cleavages and developing approaches to reduce the threat of social exclusion in the market economy
- Coherent employment policies
- Sound social security systems
- Equal access to health care and education
- Tailored policies towards the vulnerable and minorities
### 9. Education in public policy and administration

- A comprehensive governmental programme aimed at enhancing the quality of instruction in public policy and administration
- In-service training capacities at all levels of public administration
- Broad tertiary education in public policy and administration
- Specific training programmes for politicians, journalists and citizens
- Exchange schemes with foreign institutes and schools for students and teachers

### 10. Global context of policy making

- Well defined national interests in the face of Globalisation and European integration
- Insight of analysts and politicians into the rapidly changing global context of national decision making
- National administrative capacities to take part in supranational governance (such as the UN, EU, NATO, and OECD).
- Crisis management

---

**Survey Results**

Given the lack of systematic and targeted comparative analysis of public administration practices and institutions in the region, conclusions are difficult to draw about country-level public sector capacities. A research methodology looking at such capacities should draw on expert knowledge and judgment. The annual conferences of the Network of Institutes and Schools of Public Administration in Central and Eastern Europe (NISPAcee) are the meeting place of such experts and practitioners – not only from the region, but also from well-respected international public administration research and teaching institutions. Given access to this pool of expert judgment, the participants of the 11th NISPAcee Annual Conference were asked to fill in a checklist with the ten criteria for good governance mentioned above for their respective countries. Explanations of the specific meanings of questions were given to the respondents and the participants were asked to evaluate their countries’ capacities to govern according to all ten criteria. The scale for evaluation is shown in Figure 2.
Nearly eighty individuals participated in the survey. Countries evaluated by less than five participants were omitted in the cross-country results, but these scores were included in the “developed countries of the West” and the “Central and Eastern European Country” category totals. The developed countries included the USA, United Kingdom, France, the Netherlands, and Germany (11 cases overall). The Central and Eastern European countries included Albania, Armenia, Croatia, Czech Republic, Estonia, Hungary, Kazakhstan, Kosovo, Kyrgyzstan, Latvia, Lithuania, Macedonia, Moldova, Poland, Romania, Russia, Slovak Republic, and Ukraine (67 cases altogether). The results of the comparisons are presented graphically in Figure 3 and numerically in Figure 4.

The countries of Central and Eastern Europe have scores for capacities to govern that are, on average, below those of the Western democracies. As can be seen from the data, the Western countries score roughly 1.5 on each of the various components of good governance, while the variance for Central and Eastern European countries is higher – averaging roughly in the 1.0 range. Despite these averages, individual countries show significantly more variance on each of the components than the regional average indicates. In order to see this variance, country plots are given for the Czech Republic (Figure 5a), Estonia (Figure 5b), Lithuania (Figure 5c), Macedonia (Figure 5d), Poland (Figure 5e), and Ukraine (Figure 5f).

<table>
<thead>
<tr>
<th>Survey Evaluation Scale</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Quite bad situation, no clear cut improvements foreseen</td>
<td>0</td>
</tr>
<tr>
<td>Mediocre performance, mixed results</td>
<td>1</td>
</tr>
<tr>
<td>Well done: remarkable achievements, good prospects for the future</td>
<td>2</td>
</tr>
</tbody>
</table>

6 Only six Central and Eastern European countries were evaluated by five or more experts: Czech Republic, Estonia, Lithuania, Macedonia, Poland and Ukraine.
### Figure 3
General comparison of capacities of governance in Western countries and Central and Eastern European countries

![Graph showing capacities of governance](image)

### Figure 4
Average scores of selected CEE countries

<table>
<thead>
<tr>
<th>Criteria Country</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
<th>9</th>
<th>10</th>
<th>Cases</th>
</tr>
</thead>
<tbody>
<tr>
<td>Czech Republic</td>
<td>1.1</td>
<td>0.9</td>
<td>0.5</td>
<td>1.0</td>
<td>0.6</td>
<td>1.0</td>
<td>1.0</td>
<td>1.1</td>
<td>0.7</td>
<td>11</td>
<td></td>
</tr>
<tr>
<td>Estonia</td>
<td>0.8</td>
<td>1.1</td>
<td>0.9</td>
<td>1.2</td>
<td>0.7</td>
<td>1.7</td>
<td>0.9</td>
<td>0.7</td>
<td>2.0</td>
<td>0.8</td>
<td>6</td>
</tr>
<tr>
<td>Lithuania</td>
<td>1.0</td>
<td>1.1</td>
<td>1.0</td>
<td>1.3</td>
<td>0.7</td>
<td>1.2</td>
<td>1.3</td>
<td>0.9</td>
<td>1.3</td>
<td>0.9</td>
<td>7</td>
</tr>
<tr>
<td>Macedonia</td>
<td>1.0</td>
<td>1.0</td>
<td>0.6</td>
<td>1.3</td>
<td>0.1</td>
<td>1.0</td>
<td>0.7</td>
<td>0.9</td>
<td>0.7</td>
<td>0.7</td>
<td>7</td>
</tr>
<tr>
<td>Poland</td>
<td>0.8</td>
<td>0.7</td>
<td>0.3</td>
<td>0.7</td>
<td>0.5</td>
<td>1.0</td>
<td>0.6</td>
<td>1.1</td>
<td>1.0</td>
<td>1.2</td>
<td>12</td>
</tr>
<tr>
<td>Ukraine</td>
<td>1.0</td>
<td>0.8</td>
<td>0.2</td>
<td>0.2</td>
<td>0.8</td>
<td>0.8</td>
<td>0.8</td>
<td>0.6</td>
<td>1.0</td>
<td>0.8</td>
<td>5</td>
</tr>
<tr>
<td>CEE countries</td>
<td>0.9</td>
<td>0.9</td>
<td>0.6</td>
<td>0.8</td>
<td>0.5</td>
<td>1.0</td>
<td>0.7</td>
<td>0.8</td>
<td>1.1</td>
<td>0.9</td>
<td>67</td>
</tr>
<tr>
<td>Western countries</td>
<td>1.7</td>
<td>1.6</td>
<td>1.2</td>
<td>1.2</td>
<td>1.2</td>
<td>1.6</td>
<td>1.3</td>
<td>1.4</td>
<td>1.3</td>
<td>1.4</td>
<td>11</td>
</tr>
</tbody>
</table>
Section I  Building Capacities for the Present and the Future

Figure 5a
Comparison of Czech Republic capacities to govern with the Western average

Figure 5b
Comparison of Estonia capacities to govern with the Western average
Figure 5c
Comparison of Lithuania capacities to govern with the Western average

Figure 5d
Comparison of Macedonia capacities to govern with the Western average
Section I  Building Capacities for the Present and the Future

Figure 5e
Comparison of Poland capacities to govern with the Western average

Figure 5f
Comparison of Ukraine capacities to govern with the Western average
Figure 6 compares average values across all ten criteria for the group of Western democracies, for the group of all countries including Central and Eastern European countries (labeled CEE countries on the Figure), and for the six countries that were represented by five or more survey respondents. As can be seen, there is some variance across the region, with Estonia and Lithuania topping the list, while Poland and Ukraine receive scores lower than the regional average.

A number of interesting preliminary conclusions may be drawn from the expert survey. The Baltic countries display higher “good governance scores” than the countries of Central Europe, which, in turn, have higher scores than Ukraine. Comparison of the individual factors of good governance for all countries suggests education in public policy and administration, accountability of government, and an analytical basis for decision making were the strongest dimensions of governance in the region, while the weakest dimensions included the transparency of political parties, with strategic thinking and governance, and the interweaving of politics, the market, and media receiving only slightly higher scores.

The relevance of these data should not, however, be exaggerated as the expert surveys have apparent methodological limitations. As most of the experts questioned were educators and researchers, not surprisingly education and analytical capacities scored better than issues associated with the core governmental activities. Expert selection was, further, based on their participation in a specific international conference, without the application of more elaborate sampling techniques, which might have generated a more balanced composition of experts with a wider scope of expertise. Despite these methodological limitations,
however, even this preliminary diagnosis should attract the attention of decision makers, and thus contribute to a better understanding of the developmental needs of Central and Eastern European countries in their continuing effort to achieve better governance.

**Conclusion**

The answer to the question posed at the beginning of this paper is quite simple. Current Central and Eastern European modes of governance are inadequate to deal with the needs of the region and with the global challenges faced by these countries. The citizenry as well as the political representatives should fully realise the importance of improving the foundations for good governance, in order to raise the quality of life of current and future generations. Policymakers should urgently adjust their policy and administrative priorities based on this recognition.

**References**


Potůček, M. et al. (1999). Political Parties As Perceived by Czech Public and Ways to Their Modernization (Politické strany v očích české veřejnosti a cesty jejich modernizace). Prague: CESTA.


Changing Perceptions of Governance
Democratic Values in Times of Radical Change: A comparison at the Local Level Between Lithuania, Belarus, Russia, Sweden and the Netherlands

Michiel S. de Vries

Introduction

More than ten years have passed since the fall of the Berlin wall and the start of the democratisation process in Eastern Europe. Have changes become visible in democratic attitudes among influential people in these countries – and more specifically among local level politicians and leading policy makers in the bureaucratic apparatus? This question is important, because as Dror (2002) aptly puts it: “Radical improvement of the morality of senior governance elites, and especially senior politicians, is essential, with [sic] virtues are becoming more important than ‘being nice’ and ‘smiling a lot’. Without progress in this direction, other improvements of capacities to govern are likely to fail or to be misused” (Dror, 2002: 99). The capacity to govern at the local level will depend, amongst other factors, on the moral role and position of the local elites, as their actions might depend on their values.

This paper reviews how values among such local elites have changed throughout the 1990s in the new democracies of Russia, Belarus, Lithuania, and Poland, and how these changes compare with value changes in the Netherlands and Sweden (which have high democracy-ratings). All five countries experienced rapid nationwide political and economic change. The new democracies arose with the end of the communist era and the change toward a market economy. In Sweden at the beginning of the 1990s (for the first time in centuries), the government did not consist of social democrats; in the Netherlands, a coalition government was formed without Christian Democratic party participation (for the first time since 1921).
Some Theoretical Considerations

Many political theories attribute changes in attitudes to political actors. Kingdon (1984), for instance, addressed the role of ‘personnel changes’ in opening ‘policy windows’ in the policy arena. In his model, new actors are affected by changes in policy problems and solutions, which induces policy change. Sabatier and Smith (1993) acknowledge the importance of the succession of actors in his advocacy of coalition theory: ‘Turnover in personnel – sometimes resulting from external conditions, sometimes merely from death or retirement – constitutes a second non-cognitive source of change that can substantially alter the political resources of various advocacy coalitions, and thus the policy decisions at the collective choice and operational levels’ (Sabatier and Smith, 1993: 19). In a punctuated-equilibrium model, Schattschneider (1960) and Baumgartner and Jones (1993), suggested that the entrance of new actors in the policy arena is crucial for the simultaneous explanation of incremental and radical changes: “They may insist on rewriting the rules, and on changing the balance of power that will be reinforced by new institutional structures as previously dominant agencies and institutions are forced to share their power with groups or agencies that gain new legitimacy” (True, Jones and Baumgartner, 1999: 101).

Why does the succession of actors induce policy change? This paper will argue that changing circumstances, within which changing actors have to develop policies, is more important than the characteristics of those actors (such as rejuvenation or a new generation of policy makers) in determining changing attitudes. The characteristics of the period in which attitudes become dominant are, it is argued, crucial for those attitudes.

Many theories link age and generation variables to changes in values (Inglehart, 1971; Rokeach, 1973; Hazelrigg, 1991; Riley, 1987). Theories about the effects of historical period on opinions, attitudes, beliefs and values, and fundamental theories are, however, scarce. In such theories, opinions and attitudes are to a large degree contingent upon economic circumstances, the dominant political culture, media-attention or, more generally, to the “spirit of the time”. In this view, attitudes are not structural, but conversely somewhat opportunistic, changing according to the circumstances. Policy views are determined primarily by the possibilities and restrictions of the time, as given by economic growth, inflation, unemployment and the severity and urgency of social problems. Local elites will simultaneously – irrespective of their age or generation – adapt their policy opinions and views to the changing conditions. Each period – the 1960s, the 1970s, the 1980s, the post-cold war period, and the post 9-11 period – had a set of opinions and belief systems that should have been similar for both younger and older elites.
The Five Countries

The development of local elite policy views in five European countries between 1989 and 2000 supports the view that opinions and attitudes are contingent on period. The Netherlands and Sweden (as old democracies) and Lithuania, Russia and Belarus (as new democracies) experienced radical change during the 1990s.

The changes in the Russian Federation (previously the Russian Soviet Federal Socialist Republic) between 1989 and 2000 were dramatic. At the beginning of the 1990s, Russia lost most of its satellite states and changed from being a super-state into a developing state. Politically, the turnover of power from Gorbachev to Yeltsin was significant, as was the change toward a market economy attendant with hyperinflation and a significant decrease of GDP. After 1995, the economy slowly started to improve, but the Russian government suffered from budget deficits, increasing social expenditures, increased environmental problems, high hidden unemployment, and an expensive war in Chechnya; a still centralised administration did not improve problems at the local level. Life expectancy here is relatively low, the Gross National Income (GNI) per capita is decreasing and inflation is relatively high, at 37%.

The Baltic state of Lithuania started to profit from the transition to a free market economy after the fall of the Berlin wall at a very late stage. Lithuania was among one of the first countries to proclaim itself as a sovereign nation-state, and subsequently suffered a blockade by Gorbachev in 1990, and a Soviet attack of paratroopers in 1991. Popular opinion supported independence, with an unexpected return to communist government in 1992. Politico-economic crises occurred in 1995 and 1999 – with an economic tumble in 1997 tied to the economic troubles with Russia, one of Lithuania’s trading partners. Lithuania was the first to apply for NATO membership and association with the EU. Despite recent national economic improvement, such improvements have not been translated into an improved situation for local communities.

In 1989, Belarus experienced the same radical events as Lithuania, without the recent improvement. In 2000, annual inflation topped 185%, and the GNI per capita is even lower than Lithuania’s – with approximately 42% of the population living below the poverty line (World Bank, 2002). Negative population growth and the already negligible foreign direct investment fell by a factor of 4 in one year –from $440 million in 1999 to $99 million in 2000. As a land-locked country, Belarus is almost completely dependent on trade with Russia, from which it imports nearly all of its energy (at a far too high a price) in exchange for machinery and electronics. Belarus did not obtain associative member status to the European Union, and it is by far the poorest country of the five countries investigated in this paper. Problems stemming from Soviet Union times remain as severe as
ever. As Zaprudnik and Urban (1997) put it, Belarus is a poor country caught by corruption and chaos.

Dramatic political and economic changes occurred not only in Central and Eastern Europe during this time, but also in Western European countries like Sweden and the Netherlands. Sweden and the Netherlands belong to the old democracies of Europe and are in many aspects similar to each other (with the exception that in the 1990s, the Swedish economy was less dynamic than the economy of the Netherlands). In Sweden, the 1990s were characterized by drastic economic measures, such as privatization and a devaluation of the Swedish krone, which were carried out by a conservative government that came to power in 1991, following decades of Social Democratic rule. These drastic policies were continued by the Social Democrats, who returned as a minority cabinet in 1995. In the period under investigation, Sweden experienced a ‘forced’ joining of the European Union, and developments in the 1990s demonstrated the difficulty of returning to the socio-economic progress of the 1980s. As Stromberg and Scücz (2004) put it: “The welfare state in Sweden was rapidly economized and this resulted in an increase of social problems at the local level”. Their survey of the Swedish local elite shows that the situation at the local level deteriorated somewhat in the 1990s, and that the euphoria visible in the Netherlands was absent. The vast majority of Swedish local elites were, however, satisfied about the developments in their community.¹

In the Netherlands, circumstances changed rapidly in the 1990s as the country went from having financial deficits and unemployment to having a booming economy, disappearing Labour market problems, and public finance surpluses. Even municipal finances improved. Local leaders’ opinions in 2000 reflected this turn for the better, to the point of complacency (De Vries, 2003).

**Changing values among local elites**

How did local elite policy-values in the five countries develop between 1990 and 2000, specifically with regards to attitudes towards leadership, the role of minorities in decision making processes, their attitudes towards participation, conflict and conflict resolution, and towards central-local relations and income-policies? The data used in this research come from the international research project “Democracy and local governance”, which started in the late 1980s in Eastern Europe, and which was aimed at collecting information about the background and opin-

¹ For comparison with the previously mentioned countries, Sweden is a modern welfare state with a GNI per capita of $27,000, an annual economic growth rate of about 3%, inflation below 1%, growing exports and with 68% of output produced in the service sector in 2000 (World Bank, 2001).
ions of local elites in a large number of countries in the northern hemisphere. The project included gathering data from other countries such as the USA, Sweden, Switzerland and the Netherlands (see among others De Vries, 1999; De Vries, 2000; Jacob et al, 1993, Jacob et al., 1999). In all the countries involved, thirty communities, each comprising between 25,000 and 250,000 inhabitants, were selected at random; within each of these communities, about 15 political leaders and 15 leading officials were interviewed, resulting in a database of over 10,000 respondents. The interviews were carried out in 1989-1991 and were repeated in 1995-1996 and again in 2000-2001 (for all countries except Sweden, which only has data for 1990 and 2000). The interviews/questionnaires were standardized, in order to make valid comparisons possible, and participants were given a large number of statements with which they could agree or disagree on a four point Likert scale, from “completely agree”, to “agree”, “disagree” and “completely disagree”. Figure 1 presents an overview of the questions asked.

The first values analysed are attitudes toward leadership. Figure 2 shows large discrepancies between local leaders in Eastern Europe and those in Western Europe. In the former East European states, local leaders were, and still are, much more inclined to give decision making power to experts, as well as to follow what they see are the wishes of the community; they were less inclined, as leaders, to follow their own convictions. Attitudes in Lithuania, Sweden and the Netherlands converged, concerning the role of experts in decision-making, but Russia and Belarus kept very distinct positions. In Belarus and Russia, local leaders became more sceptical about the merits of strong leadership. The most important differences in leadership values are between the new democracies and those in the old democracies.
Figure 1
Survey Questions about Local Elite Values

Attitudes toward leadership
- Most decisions should be left to the judgement of experts
- The leader must follow his convictions even if they are different from the expectations of the constituency
- Certain people are more qualified to run this country, due to their traditions and family background
- In this complicated world, the only way we can know what is going on is to rely on leaders or experts who can be trusted
- It will always be necessary to have a few strong, able people actually running everything.
- A leader must follow the wishes of the community even if he thinks the citizens are mistaken

Attitudes towards minorities in decision making processes
- When some important issues are under question, a leader should not pay attention to the fact that the majority of the people in the community oppose him.
- The rights of minorities are so important that the majority should be limited in what it can do
- The government has the responsibility to insure that rights of all minorities are protected
- The minority has the right to oppose, but no right to resist, decisions taken by the majority

Attitudes toward participation, conflict and conflict resolution
- A good leader should refrain from making proposals that divide the people, even if these proposals are important for the community
- A leader should modify his actions to keep consensus
- Preserving harmony in the community should be considered more important than the achievement of community programs
- Public decisions should be made with unanimous consent

2 The statements in Figure 1 may be different than that used in the actual surveys, due to the translations.
Widespread participation in decision making often leads to undesirable conflicts

Leaders that are overly concerned about resolving conflicts can never carry out community programs successfully

**Attitudes toward parochialism and central-local relations**

- Community progress is not possible if national goals always have priority
- We should not worry so much about national problems when we have so many problems in our own community
- National goals should not be achieved at great cost to local communities
- Although national affairs are important, people should first worry about their own community problems

**Attitudes on income policies**

- Rich people should pay more for the support of community projects than poor people
- There should be an upper limit on income, so that no one earns much more than others
- The government has the responsibility to see that nobody lives well when others are poor
- Discrepancies in salary should be continually reduced
- In every situation, poor people should be given more opportunities than rich people
The second value measured was **attitudes towards minorities in decision making processes**. In every policy making process, some people agree with the proposals and others will oppose them. What will be done about minority interests in the decision-making process? In Figure 3, the opinions concerning the role of minorities are presented. Both Western, and the former East European, countries had moderate views about the role of minorities. Minorities should not be neglected, but they also should not excessively constrain the majority rule. Only a small minority in all countries agrees that “when some important issues are in question, a leader should not pay attention to the fact that the majority of the people in the community oppose him” (statement 1). No clear majority is in favour of the second statement that “the rights of minorities are so important that the majority should be limited in what it can do.” Hence, from these results, it follows that the interests of minorities should be considered, but should not be decisive. The government has obligations toward minorities, according to the vast majority of local leaders in all countries, but minorities should be restricted in their action, if making decisions in their favour is costly. Local leaders may become more favourable toward minorities (like in Russia), or they may become more strict toward minorities (like in Belarus), or the attitudes of local leaders towards minorities is stable (like in Lithuania). The lack of variance among the local leaders in different countries is striking – given the large differences seen with regard to leadership attitudes.
The third battery of statements concerns attitudes towards public participation, conflict and conflict resolution. As shown in Figure 4, these issues show more differences in opinions and attitudes than the other questions. East European local elites are much more in favour of modifying and postponing decisions in order to reach consensus than are the local elites in Sweden and the Netherlands (despite popular perceptions to the contrary). East European local elites are, however, much more inclined to delay decisions than their counterparts in Western Europe, as they are much more open to criticism, and much more willing to do something about such criticism than Westerners. East European local elites are however, much less favourable about public participation. According to a majority of Eastern European respondents, public participation often results in undesirable conflict, while only a minority of respondents from the two West European countries think this is the case. The same goes, *grosso modo*, for the effectiveness of conflict resolution and the opinion about who should participate in decision making processes. In the new democracies, local leaders would like to restrict participation in decision making to persons who are fully informed; this opinion is not shared by local elites in Western European countries. Eastern European elites also think that decisions should be made unanimously, while in the West, a simple majority is deemed sufficient.

**Attitudes toward parochialism and central-local relations** form a third set of statements to which the local policy makers in the five countries responded. As seen in Figure 5, the old democracies display more parochialism and are against community progress if it clashes with national goals. In the old democracies, local elites recognise the importance of national developments and do not see a systematic contrast between national and local development. A much larger (and growing) percentage of local elites in the new democracies show parochial tendencies than in the old democracies. Convergence of opinions that “national goals should not be achieved at great costs to local communities” is due to the changing values in the old democracies. In 2000, as compared to 1990, an increasing portion of local elites in the Netherlands and Sweden were sceptical about the pursuance of national goals, if these imply great costs for the communities. They did not see a systematic conflict between national and local goals (issue 1), but if such conflicts exist, they increasingly show patterns of parochialism, just like their counterparts in the new democracies. With regard to the final issue, concerning central-local relations, divergence is again seen. Local elites in the new democracies were already, in 1990, more parochial than their counterparts in the old democracies, and this difference increased in the subsequent period.

**Attitudes on income policies** form the last block of statements put to local elites. Figure 6 shows that local elites in the new democracies are much more in favour of leveling policies than the elites in the old democracies, with the percentage in favour of such policies increasing for both groups of countries during
the 1990s. When this specific example is generalised to general income policy, however, only in Sweden do the majority of local elites show a propensity in favour of leveling policies. In the other countries, only a minority favour such policies (although this minority is becoming larger in Lithuania and Russia). The percentages of local elites in favour of income redistribution policies has been converging between countries – except in the Netherlands where local elites in favour of leveling policies are roughly equal to those against.

The analysis above does not permit general conclusions about value change. Sometimes there is stability and convergence, sometimes change and growing diversity between local elite values in the countries surveyed. Local elites in the old democracies do not necessarily have more democratic attitudes than those in the new democracies, as these values depend on the issues and on the values involved. Some general inferences may, however, come out of the analysis, by explaining attitude change in terms of rejuvenation of the local elite, in terms of succession of a new generation or in terms of “period effects”.

### Figure 2

*Attitudes toward leadership*

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Follow Wishes of Community</td>
<td>05 43 39 69 74 60 18 63 69</td>
<td>25 13 09 62 51 34 37 64 55</td>
<td>Rely On Leaders, &amp; Experts</td>
<td>17 10 09 09 80 73 74 75 82 83</td>
<td>17 10 09 09 80 73 74 75 82 83</td>
<td>20 27 22 90 99 67 58 87</td>
<td>Leaders Tradition Family</td>
<td>11 07 06 74 68 65 51 76</td>
<td>Leader Follow His Convictions</td>
<td>71 70 51 56 55 51 22 23 55 46</td>
</tr>
</tbody>
</table>

*The percentage of respondents in each country and point of time agreeing with the statement are given.*

### Figure 4

*Attitudes toward participation, conflict and conflict resolution*

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Modify Actions Consensus</td>
<td>33 59</td>
<td>47 46</td>
<td>86 93</td>
<td>94 96</td>
<td>81 87</td>
<td>81 81</td>
<td>59 59</td>
<td>59 59</td>
<td>80 78</td>
<td>80 78</td>
</tr>
<tr>
<td>Decision Be Postponed</td>
<td>46 17</td>
<td>05 08</td>
<td>85 92</td>
<td>83 68</td>
<td>81 81</td>
<td>81 81</td>
<td>59 59</td>
<td>59 59</td>
<td>80 78</td>
<td>80 78</td>
</tr>
<tr>
<td>Participation Bring Conflict</td>
<td>45 32</td>
<td>26 20</td>
<td>64 52</td>
<td>41 38</td>
<td>59 59</td>
<td>59 59</td>
<td>59 59</td>
<td>59 59</td>
<td>80 78</td>
<td>80 78</td>
</tr>
<tr>
<td>Right To Organize Resist</td>
<td>94 92</td>
<td>71 58</td>
<td>82 93</td>
<td>82 93</td>
<td>80 78</td>
<td>80 78</td>
<td>82 93</td>
<td>82 93</td>
<td>80 78</td>
<td>80 78</td>
</tr>
<tr>
<td>Conflict Resolution is Ineffective</td>
<td>39 70</td>
<td>44 41</td>
<td>66 75</td>
<td>75 84</td>
<td>71</td>
<td>71</td>
<td>71</td>
<td>71</td>
<td>71</td>
<td>71</td>
</tr>
<tr>
<td>Harmony Precedes Achievement</td>
<td>27 17</td>
<td>15 21</td>
<td>71 75</td>
<td>73 50</td>
<td>66</td>
<td>66</td>
<td>66</td>
<td>66</td>
<td>66</td>
<td>66</td>
</tr>
<tr>
<td>Public Decision Should Be</td>
<td>14 02</td>
<td>33 34</td>
<td>94 96</td>
<td>21 68</td>
<td>94 94</td>
<td>94 94</td>
<td>94</td>
<td>94</td>
<td>94</td>
<td>94</td>
</tr>
<tr>
<td>Fully Informed Should Vote</td>
<td>07 19</td>
<td>05 07</td>
<td>88 90</td>
<td>95 48</td>
<td>82</td>
<td>82</td>
<td>82</td>
<td>82</td>
<td>82</td>
<td>82</td>
</tr>
</tbody>
</table>

*The percentage of respondents in each country and point of time agreeing with the statement are given.*
### Figure 5
**Opinions about parochialism and national interests**

<table>
<thead>
<tr>
<th>Year Of Study</th>
<th>Netherlands</th>
<th>Sweden</th>
<th>Belarus</th>
<th>Lithuania</th>
<th>Russia</th>
</tr>
</thead>
<tbody>
<tr>
<td>No Community Progress</td>
<td>24 46</td>
<td>67 65</td>
<td>66 53</td>
<td>76 79</td>
<td>63 74</td>
</tr>
<tr>
<td>Not Worry About National Goal Not At Cost</td>
<td>10 07</td>
<td>20 16</td>
<td>45 45</td>
<td>25 45</td>
<td>41 57</td>
</tr>
<tr>
<td>National Goal Not At Cost</td>
<td>27 40</td>
<td>78 88</td>
<td>91 87</td>
<td>83 91</td>
<td>94 91</td>
</tr>
<tr>
<td>Community Problems First</td>
<td>69 31</td>
<td>61 65</td>
<td>74 75</td>
<td>99 84</td>
<td>76 89</td>
</tr>
</tbody>
</table>

*The percentage of respondents in each country and point of time agreeing with the statement are given.*

### Figure 6
**Attitudes toward income policies**

<table>
<thead>
<tr>
<th>Year Of Study</th>
<th>Netherlands</th>
<th>Sweden</th>
<th>Belarus</th>
<th>Lithuania</th>
<th>Russia</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rich should pay more</td>
<td>74 68</td>
<td>41 50</td>
<td>89 89</td>
<td>92 93</td>
<td>90 93</td>
</tr>
<tr>
<td>Poor be given more opportunities</td>
<td>25 25</td>
<td>62 50</td>
<td>52 47</td>
<td>44 59</td>
<td>46 50</td>
</tr>
<tr>
<td>Upper limit on income</td>
<td>24 19</td>
<td>22 22</td>
<td>20 30</td>
<td>09 42</td>
<td>23 39</td>
</tr>
<tr>
<td>No live well when others</td>
<td>43 07</td>
<td>89 86</td>
<td>35 40</td>
<td>43 40</td>
<td>33</td>
</tr>
<tr>
<td>Salary discr. Be reduced</td>
<td>27 25</td>
<td>72 66</td>
<td>36 50</td>
<td>18 46</td>
<td>38</td>
</tr>
</tbody>
</table>

*The percentage of respondents in each country and point of time agreeing with the statement are given.*
**Discriminant analysis**

Explanations seeking to find which of the three factors – rejuvenation, the succession of generations, or period effects – is most important in explaining value change have a long history (Mannheim, 1929; Inglehart, 1971, Georgescu Roegen, 1971; Rokeach, 1973; Elder, 1992; Elder & O’Rand, 1995; Hazelrigg, 1991; Riley, 1987). Causal explanations are problematic because the three variables (age, birth cohort and period) are not independent from one another. When someone’s birth cohort (C) and age (A) are known, the current period (P) can also be derived, as the relationship between the variables is P=A+C (Hagenaars, 1998). All three factors cannot, however, be used simultaneously in regression analysis as exogenous variables, because this results in unsolvable identification problems. As Hardy (1997) notes, “due to the confounding of A, B and C [age, birth cohort, and chronological time] it is never possible to separate the effects of aging, cohorts and time by simply analyzing the linear additional effects of age, birth year and time of survey. Without some assumptions, which are often lacking, there is apparently no straight forward solution to the identification problem” (Hardy, 1997: 168).

Despite such problems, discriminant analysis can be used. Attitudes, rather than being treated as the dependent variable, should be treated as the independent variable – allowing one to investigate the degree to which one can predict the age of someone, the generation he or she belongs to, or the period he or she lives in on the basis of the set of opinions. Such a specification seeks to find the relevance of someone’s age, generation, or the period in which one lives for one’s set of opinions – and allows for conclusions such as “these kind of opinions are typical for the 1960s,” “such opinions are characteristic for the age of this respondent” or “such views were generally held by the protest generation”.

A discriminant analysis adequately answers the research questions for this paper because it can determine, for attitudes (or scales thereof), to what extent they are distinctive for a particular classification criterion. The method tries to minimize the differences in attitudes within groups, and to maximize the differences between groups by finding a mathematical function which can be used to find attitudes which are quantitatively “distinctive” for each classification criterion (age groups, periods and generations). Given this function, predictions about which group the respondent most likely belongs to are possible, and predicted values can be compared with actual or observed group membership (Gadourek, 1993; Miller & Wicker, 1999). The discriminant-analyses were conducted for the five countries separately and the results are presented in Figure 7 and Figure 8.
Section II    Changing Perceptions of Governance

As can be seen in both Figures, period effects are dominant compared to generation – and age-effects for all five countries. Values seem to be characteristic for the period in which they are expressed. The number of items which can be used to help discriminate between periods in 4 out of the 5 countries is larger than the number of items discriminating between generations and age groups. On the basis of all the discriminating items, the period in which local elites live can be better predicted than their age group or generation – and such a period effect is strongest in the Netherlands, Lithuania and Russia. As in the Netherlands, changes in values in Lithuania and Russia are most characteristic for the period in which they are expressed. The predictive power of the discriminating items is reasonably high, as is the explanatory power of problem perception – both are above 80% – though the predictive power is less for Belarus and almost non-existent for Sweden.

Why are certain values especially characteristic for certain periods (and less for generations and age-groups)? To investigate this issue, data was collected exploring whether local circumstances changed in the periods identified in the discriminant analysis. In the survey, local elites provided data about the severity of problems in 14 policy areas – ranging from poverty, immigration, health and housing to infrastructure, public safety, and economic development. Perceptions about the severity of these problems might be used to explain period differences – as in all five countries, radical political change might be a precipitator of increased intensity of problems. The degree to which problems are characteristic for the two moments in time is given in Figure 9.

<table>
<thead>
<tr>
<th></th>
<th>Periods</th>
<th>Generations</th>
<th>Age groups</th>
<th>N</th>
</tr>
</thead>
<tbody>
<tr>
<td>Netherlands</td>
<td>11</td>
<td>2</td>
<td>4</td>
<td>1011</td>
</tr>
<tr>
<td>Lithuania</td>
<td>18</td>
<td>4</td>
<td>7</td>
<td>585</td>
</tr>
<tr>
<td>Russia</td>
<td>13</td>
<td>5</td>
<td>10</td>
<td>1525</td>
</tr>
<tr>
<td>Belarus</td>
<td>18</td>
<td>7</td>
<td>7</td>
<td>899</td>
</tr>
<tr>
<td>Sweden</td>
<td>13</td>
<td>2</td>
<td>3</td>
<td>1754</td>
</tr>
</tbody>
</table>

As can be seen in both Figures, period effects are dominant compared to generation – and age-effects for all five countries. Values seem to be characteristic for the period in which they are expressed. The number of items which can be used to help discriminate between periods in 4 out of the 5 countries is larger than the number of items discriminating between generations and age groups. On the basis of all the discriminating items, the period in which local elites live can be better predicted than their age group or generation – and such a period effect is strongest in the Netherlands, Lithuania and Russia. As in the Netherlands, changes in values in Lithuania and Russia are most characteristic for the period in which they are expressed. The predictive power of the discriminating items is reasonably high, as is the explanatory power of problem perception – both are above 80% – though the predictive power is less for Belarus and almost non-existent for Sweden.

Why are certain values especially characteristic for certain periods (and less for generations and age-groups)? To investigate this issue, data was collected exploring whether local circumstances changed in the periods identified in the discriminant analysis. In the survey, local elites provided data about the severity of problems in 14 policy areas – ranging from poverty, immigration, health and housing to infrastructure, public safety, and economic development. Perceptions about the severity of these problems might be used to explain period differences – as in all five countries, radical political change might be a precipitator of increased intensity of problems. The degree to which problems are characteristic for the two moments in time is given in Figure 9.

62
As shown in Figure 9, problem perception data helps determine the characteristics of the period about as much as value change helps discriminate period-effects in all five countries. In those countries where value change helped determine period, changes in problem-perception provide the least amount of discrimination, for example in Sweden and Belarus.

The lack of discriminatory power of problem perception and value change is explicable for both Belarus and Sweden. The lack of change in Belarus from the beginning to the end of the research period is probably reflected in the lack of value change among the local elite. Belarus was, and still is, one of the poorest countries in Europe, and Belarussian society is politically apathetic to a greater degree than elsewhere in Eastern and Central Europe. According to Bremmer and Taras (1997), “By and large, the Belarussian people are not convinced that the pluralistic system they have has been designed to improve their daily lot” (Bremmer and Taras, 1997: 301). The presidency of Lukashenko (the first ‘democratically’ elected president) did not do much to transform the formerly communist system. Sweden, however, is an old democracy, like the Netherlands, and one would expect similar outcomes. However, whereas the Dutch economy boomed in the 1990s (and local level problems diminished rapidly), the Swedish economy remained problematic and such problems were persistently reflected at the local level.

Just as the analysis above does not permit general conclusions about value change, discriminant analysis must also be cautiously interpreted. These outcomes do not imply that generation-shifts and rejuvenation do not matter in general or that previous research into the effects of generations and age groups on value change is refuted by this research. The respondents are not just members of a population, but leading politicians and chief public administrators, and perhaps their position does not allow them to adhere too long to existing opinions (as expected from the theory on generational shifts) but instead forces them to adapt their views to the circumstances and be somewhat opportunistic. Moreover, lo-

---

The question of elite opportunism is not, however, clear – the findings are not necessarily a consequence of individual opportunism. Individual members of the local elite may not show much value-change, but instead because of changing circumstances, new members of the local elite (with values adapted to those changing circumstances) become necessary. In the first half of the 1990s, many leading positions passed from the old to a new elite.

---

Figure 9
The predictive power of problems for periods

<table>
<thead>
<tr>
<th></th>
<th>Periods values</th>
<th>Problems</th>
<th>N</th>
</tr>
</thead>
<tbody>
<tr>
<td>Netherlands</td>
<td>96%</td>
<td>85%</td>
<td>740</td>
</tr>
<tr>
<td>Lithuania</td>
<td>91%</td>
<td>91%</td>
<td>585</td>
</tr>
<tr>
<td>Russia</td>
<td>87%</td>
<td>82%</td>
<td>1525</td>
</tr>
<tr>
<td>Belarus</td>
<td>73%</td>
<td>79%</td>
<td>899</td>
</tr>
<tr>
<td>Sweden</td>
<td>68%</td>
<td>76%</td>
<td>1754</td>
</tr>
</tbody>
</table>
cal elite value change is not related to general values, but rather to job-related values (concerning whether and how policies should be developed).

**Conclusions**

Is value change visible among local elites in countries experiencing radical change – and if so, how can such change be explained? Belarus, Lithuania, Russia, Sweden and the Netherlands between 1990 and 2000 experienced radical political-economic change. Values among local policy makers – and especially those concerning leadership, public participation, local-central relations and attitudes on income policies – sometimes converged and sometimes diverged. Sometimes large differences between countries were seen, while at other times, a large degree of congruence existed in perceptions.

How can such value-change be explained? Discriminant analysis investigated whether a particular set of opinions is especially distinctive for specific generations, age-groups, entrance-cohorts or periods – and found that period-effects best explain differences in values (especially for the Netherlands, Lithuania and Russia). Birth cohorts (representing generation-shifts) and age-effects (representing “rejuvenation” effects) are less important factors. Local policymaker attitudes in the Netherlands and Lithuania are characteristic for the period in which they express those opinions. Although in all countries (and therefore also in these three) many members of the so-called silent generation were replaced by members of the protest-generation in the early 1990s, such replacement does not help to discriminate between value changes – the opinions of the members of the latter generation have changed in approximately the same direction as those of their predecessors.

Irrespective of the local policymakers’ age and generation, some general trends in values were seen during the 1990s. In the Netherlands, for instance, fewer and fewer policymakers were in favour of leveling incomes; and more and more of them emphasized decisiveness over consensus-seeking in decision making, and also identified the importance of national problems when compared to local problems. The one determinative factor for value change at the local level is the change in severity of social problems at the local level. Thus, period-effects on value change will be especially strong when the periods are distinguished by a significant shift in the urgency of societal problems, and are likely to be absent if the urgency of social problems remains stable over the periods.
Democratic Values in Times of Radical Change

References


Section II      Changing Perceptions of Governance


Role and Role Perceptions of Senior Officials in Slovakia

By Katarina Staroňová

Introduction

The transition of Central European countries into modern democracies in the past decade has led to many questions and problems connected with institutional redesign. The majority of academic studies have focused on topics such as electoral systems, multi-party politics, coalition governments and constitutional reviews. Studies by international organisations have been more interested in the degree of ‘Europeanisation’ or ‘Westernisation’ of these countries and in the degree of adoption of formal frameworks incorporating democratic standards. Part of the process of creating new institutional arrangements involves the role of individual senior officials, and specifically the degree to which there is a clear division between political or administrative roles. Although many international organisations (such as the European Commission and the OECD) recognise the importance of, and need for, establishing a Senior Civil Service, few studies have been undertaken in this field.

This paper analyses formal and actual perceptions about the role of the senior civil servants in Slovakia using a research methodology developed by Guy Peters and Tony Verheijen, and is a part of a study on politico-administrative relations. As Slovak formal legislation lacks a definition for senior official, all relevant formal documents – such as the Law on Civil Service, Competency Law, Coalition Agreement – are analysed, in order to obtain a clear overview of the official role of top civil servants in the Slovak context. The second part of the paper presents data about the role perceptions of top civil servants from their own point of view. This part draws from empirical research.

1 The author would like to thank Ludmila Malikova for her assistance with interviewing and Tony Verheijen and Guy Peters for useful comments on earlier drafts of this paper.
Section II  Changing Perceptions of Governance

Formal Roles

Immediately after the Velvet Revolution in 1989, the former Czechoslovakia engaged in a democratic transformation. Public administration reform was initiated in 1990 and envisaged two interconnected reforms: *decentralisation* (handing over responsibilities from the state administration to territorial self-government) and *civil service reform* (defining the new status of civil servants). Following elections in 1992, a new government was created in Slovakia by a coalition of populist parties with national and social orientations (and some authoritarian inclinations) led by Vladimir Meciar’s HZDS party. The only public administration reform during this term (1994-1998) was a new territorial division, with a slow process of deconcentration (transfer of competencies from top to lower levels of state administration). The ruling government had made no effort to introduce decentralisation or any laws that would affect the behaviour of civil servants. As a result, the Slovak civil service became more politicised during the 1994-98 era and the environment in which the civil service was operating lacked transparency and ethical principles – this resulted in a high turn over among civil servants.

The 1998 elections brought into power a broad coalition ranging from parties from the right (Slovak Democratic Coalition, Hungarian Coalition Party) to the left (Slovak Democratic Left and Party for Civil Understanding). This broad coalition led to internal tensions, conflicts and ultimately led to the delay and compromise of administrative reforms. Administrative reform, including reform of the laws on relations among civil servants, became a point of contention for the coalition parties and their power interests.

In July 2001, the Slovak Parliament passed two vital pieces of legislation for the public administration reform that arranged organizational relations among politicians and civil servants, namely the *Law on the Civil Service* and the *Law on the Public Service* (both came into effect on 1 April 2002). The Civil Service Law regulates state employees who are acting under public authority (such as civil servants in the ministries), whereas the Public Service Law regulates support staff and employees of organisations financed by the State but who do not directly exercise state authority, such as teachers and health service employees. The Civil Service Law aspired to make the civil service more professional, and to reduce

---

2 Malíková and Staroňová (2001).
3 The HZDS led coalition brought about the split of Czechoslovakia in 1992. After premature elections in 1994, HZDS (with nearly half of the seats in the parliament) again became the leading party in the coalition with the Slovak national party and the Association of Workers. The party ruled the country for a full term from September 1994 to September 1998.
4 More information on the effects of the coalitions on the policy making process (including administrative reform) can be found in Staroňová and Malíková (2004).
5 The Public Service Law is based on the Labour Law with some additional provisions to take into account the special situation of the public service.
civil servant vulnerability to changes in government. Such regulation aimed at reducing the previously unbounded ability of each incoming government to place its own people into all key positions (sometimes even two or three layers down in the hierarchy) and the freedom of ministers and heads of offices to recruit at their own discretion. The new law clearly distinguishes between a political post (such as the president and cabinet members including individual ministers) and a professional career post (such as head of office, director generals of a section, unit heads and other ministerial staff). The Civil Service Law also contains provisions for equal access to the civil service and the right of the civil servant to administrative and judicial review in case of alleged breaches of his or her rights. In its annual assessment for 2002, the EU/OECD based SIGMA Programme deemed that the legal framework for the Slovak civil service was appropriate and contained the main civil service standards which prevail in EU member states (SIGMA, 2003: 3).6

Structure of the Ministry and Definition of Senior Official in Slovakia

The Civil Service Law establishes a hierarchical system of subordination for civil servants and clearly states the rights and duties of individual civil servant classes. Figure 1 depicts a formal structure of a ministry in Slovakia, while Figure 3 outlines the main functions of chief ministerial staff. The ministry is headed by a minister who is appointed by the winning coalition and who is a member of the cabinet. Each ministry has one or two state secretaries who are political nominees of the minister’s party. These political posts lie at the core of coalition negotiations and are anchored in the coalition agreement.7 The distribution of political posts strictly respects the principle of proportionality, which stipulates that the number of political posts (in this case ministers and state secretaries) is directly proportional to the share of votes gained by each party represented in the coalition during the parliamentary elections. A Ministry is usually divided into five to seven Departments (sometimes called sections) that are responsible for a particular substantive part of the ministry’s agenda. Usually, there are a few support departments (such as those focused on legislative, financial, EU, information technology matters) that are either separate or integrated into substantive departments, depending on the type of a Ministry. Each department is headed by

---

6 However, as will be discussed subsequently, some of this legal framework’s deficiencies have consequences for its implementation.

7 See Staroňová and Malíková (2004) for a detailed discussion of similarities and differences of individual coalition agreements (1994, 1998, 2002) on mechanism for the division of government and parliament posts, such as prime minister, vice prime ministers, ministers, state secretaries, foreign delegations, heads of parliamentary committees, etc.
a director general and is further subdivided into units that are managed by heads of units. A Ministry also has a Head of the Office who is in charge of administrative and personal tasks in the day-to-day running of the office. The Head of the Office, together with the director generals, report to the senior professional civil servants. In practice, the executive team of each ministry consists of the minister, state secretaries, head of office and director generals. This team meets regularly, once a week, to discuss all important matters concerning policy development and to make decisions about such policy development.

**Figure 1**

General Structure of the Ministry in Slovakia

The term *senior official* is not defined (and does not exist) in formal legislation as a formal status or an official form of appointment (be it political or professional). Senior officials in the Ministry’s hierarchy may be identified only with the aid of roles and task definitions for various posts within the ministry anchored in the Act No. 312/2001 of the Civil Service Law, Act No. 575/2001 of the Competency Law, and various Coalition Agreements and internal ministerial regulations. From these documents, senior officials were identified according to their formal status in the hierarchy (top layer), form of appointment (political vs. professional) and degree of influence in decision-making and with regard to the policy making process (executive team of the Ministry). Given the prominence of the executive team, however, they are considered to be senior civil servants.

The Civil Service Law is an extremely elaborate document, laying down in extreme detail (over 160 articles) both processes and employment conditions. Among others it also defines a “civil servant” and recognizes both political and professional career posts within the civil service. The scope of the civil service is broadly defined to include posts with responsibility to execute state authority. Although the law introduces a classification system for civil servants (a hierarchical system of superiority and subordination) it does not provide a clear distinction between top level civil service posts and lower level posts, including a de-compression of the salary
system and the creation of much improved employment conditions for top level officials. The only hierarchical differentiation is introduced by the term “superior” which is too broadly defined. According to the Law, a “superior” is a civil servant who is authorised (in Chapter 9 of the Law) to give instructions to subordinate civil servants in the fulfillment of his or her duties. The hierarchically highest superior in the professional civil service is a “head of the office” (in Chapter 10 of the Law), who is responsible for running the office, i.e., Ministry. Prior to the Civil Service Law coming into effect, the head of the office was a political post with direct influence on decision-making and policy making. 8 With the Civil Service Law coming into effect, the Office Head posts were required to become apolitical – either by officially leaving the party or withdrawing from the office (as in the case of the Ministry of Justice). The law (in Chapter 5) defines political posts as “those to which the nominees where elected or recalled by the Parliament or those who were nominated or recalled by the a) president; b) Cabinet; c) head of the Parliament; d) head of the Constitutional court.” The hierarchically highest political post is that of minister. The Civil Service Law, however, does not specifically mention the posts of other political nominations – notably of the state secretaries or ministerial advisors – and it therefore does not regulate the number and roles of these political posts in the ministry. Indirectly, these posts can be considered to be top political civil servants because the state secretaries are nominated by the Cabinet and anchored in the coalition agreement.

The Competency Law defines the number of ministries, their basic competencies and the basic structure of a Ministry (as previously discussed). The internal organisation and division of roles within a Ministry is left for the internal regulation of each Ministry. The Competency Law, as the only one, formally defines the role of state secretaries as a deputy to the Minister during his/her absence and notes “…the minister may delegate some of his/her rights and tasks also in other events. The state secretary has an advisory vote when representing the minister at the Cabinet’s meeting.” Thus, the status and actual role of the state secretary is unclear, depending on the particular minister’s delegation of tasks and duties, as is the number of state secretaries. One or two state secretaries at each ministry has been the historical norm, but the number is determined in the coalition agreement following the principle of proportionality, rather than by any real need of a ministry, the scope of its mandate or its current priorities. 9

---

8 Prior to the new Civil Service Law, the head of the office was clearly a political post, usually from the same party or affiliated to the minister’s party (given that state secretaries during 1998-2002 had to be from a different party than the minister's according to the coalition agreement. Given their political allegiance with the minister, the head of the office often assumed de facto the role of a state secretary.

9 Such disregard for the needs of the ministry opposed the original intention of the establishment of the state secretary post. Particularly ministries with a broad agenda should have two state secretaries so that the agenda can be divided. For example, in the ministry of education, higher education is run by one state secretary and primary/secondary education is run by the other state secretary.
Section II  Changing Perceptions of Governance

In spite of the unclear position, three basic functions can be identified:  

- deputy to the minister internally and externally
- permanent running of the ministry or part of the agenda
- representation of coalition interests at the ministry

The first function, representation of the minister internally and externally, is the only function anchored in the Competency law, however, the scope and extend to which the state secretary functions as a deputy is left for the discretion of the minister. The second function, running the ministry or part of its agenda, was the original intention when the post of a state secretary was introduced in 1992 as part of the new institutional arrangements. Particularly, ministries with a broad agenda should have two state secretaries so that the agenda can be divided, e.g., at the ministry of education and higher education is run by one state secretary, and primary and secondary education is run by the other state secretary.

The third function, representation of coalition interests, is directly related to the way of political nominations made for this position. Each government made different arrangements of post distribution, ranging from one party nominees present at each ministry (1994-98), to a complicated arrangement when a minister was from one of the coalition parties, and at least one of his state secretaries had to be from another coalition party (1998-2000). In this way, each ministry had a representative of at least two coalition parties. The current government abandoned this principle. Thus, the post of a state secretary is also a source of influence as well as a source of control and (or) cooperation among coalition partners. Whatever the arrangements were during each government, each agreement clearly defines the ratio among coalition partners.

As a result, and as shown in Figure 2, each government has had a different (and increasing) number of state secretaries. As also noted in Figure 2, there is an increasing trend for state secretary posts to be assigned to the specialists with no political affiliation. During the second coalition Government (2002 – the present) this practice was reinforced with more ‘expert’ appointments.

12 Specific parties nominate an expert as state secretary as the distribution of state secretary posts belong to the political parties.
The absence of a definition for the post of state secretary leaves space for the minister to ignore the state secretary – particularly during disagreements in the coalition – reducing the state secretary to a purely formal role. Such space also allows the state secretary to engage in discretionary activities, given the difficulty of the minister to control him (as the state secretary is accountable to the Cabinet and not to the minister). Such space, in either case, results in a dysfunctional and inefficient ministry, as political tensions among the coalition parties are reflected within the ministry (notably between the minister and state secretaries).

The formal framework for policy making is set by the Constitution and laws, particularly the legislative procedure of Government and Parliament. These regulate the role of individual bodies in decision-making, coordination and the process of initiation of the new laws and amendments, the process of law adoption and its promulgation. All processes that are formally regulated are of a legislative nature and consist of a very formal sequencing of draft legislation, particularly in the reviewing process. There exist no formal rules or guidelines in regards to a broader policy process that encompasses the formulation of problem or issue definition, design of concepts, strategies and policy analyses or design of action plans, implementation, monitoring and evaluation. The line ministries are responsible for the actual design of policies, such as strategies, conceptual issues and draft laws.

There are three main means for developing documentation and materials in Central and Eastern Europe: a) by an individual civil servant in the ministry; b) by setting up a working group consisting mostly by outsiders – academics; and c) by outsourcing to an external body – institutes and research centers. Substantive departments headed by the director generals produce draft concepts, strategies, draft laws and any written documentation for the policy making process. The first level below the director generals are composed of units which work on the command of the director generals and who undertake the actual eLabouration of the material. Heads of units can be of a substantive nature or of a supportive nature (legislation drafting, budgeting, IT). Every material prepared at the ministry is discussed at the weekly

---

13 More on the theory and practice of policy making in Slovakia, including the impact of EU accession on policy making can be found in Staroňová (2002).
meetings of the executive team of the ministry. Each document is then signed by the minister responsible for the work at the ministry, and the document is then sent for the reviewing and adoption stage. The legislative Rules of the government stipulate the subsequent phases of material progress.

Each ministry has regular weekly meetings of the informal executive team in which the minister, state secretary, head of the office and directors general participate. The political posts, ministers and state secretaries, together with the highest professional posts, head of the office and directors general, form the senior civil service and can be considered to be senior officials in Slovakia (see Figure 3). The second part of this paper will investigate the perceptions of the roles and duties of these civil servants.
The role of a state secretary is not covered by the Civil Service law and his/her duties are based on assessment by Beblavý (2002: 40).

**Figure 3**

Executive Team of the Ministry

<table>
<thead>
<tr>
<th>Role</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Minister</strong></td>
<td>Highest political civil servant in charge of agenda at the Ministry</td>
</tr>
<tr>
<td></td>
<td>Represents the Cabinet in the Ministry and vice versa (according to §4 of the Competency law, he is entirely responsible for the activities of the Ministry)</td>
</tr>
<tr>
<td></td>
<td>Sets priorities and issues</td>
</tr>
<tr>
<td></td>
<td>Co-ordinates work at weekly ministerial executive team meetings</td>
</tr>
<tr>
<td><strong>State secretary</strong></td>
<td>Political civil servant, nominated by the Cabinet and agreed in the coalition agreement</td>
</tr>
<tr>
<td></td>
<td>Deputy to the minister internally and externally</td>
</tr>
<tr>
<td></td>
<td>Management of the ministry or part of the agenda</td>
</tr>
<tr>
<td></td>
<td>Representation of coalition interests at the ministry</td>
</tr>
<tr>
<td><strong>Head of the office (Ministry)</strong></td>
<td>Highest professional civil servant in the office</td>
</tr>
<tr>
<td></td>
<td>Reports directly to the minister</td>
</tr>
<tr>
<td></td>
<td>Responsible for personal, administrative and organizational run of the office</td>
</tr>
<tr>
<td><strong>Director generals</strong></td>
<td>Professional civil servants responsible for substantive issues and processes</td>
</tr>
<tr>
<td></td>
<td>Co-ordinate activities and supervise policy development and implementation, including draft concepts, strategies, draft laws and any written documentation for the policy making process</td>
</tr>
<tr>
<td></td>
<td>Fully accountable to the Minister</td>
</tr>
</tbody>
</table>

14 The role of a state secretary is not covered by the Civil Service law and his/her duties are based on assessment by Beblavý (2002: 40).
Real Roles and Role Perceptions

The interviews were conducted with the “executive team” (minister, state secretaries, head of the office and directors general) – as well as heads of the units at the level below the position of the directors general – during the period August – November 2002. The ministries covered included the Ministry of Education (5 respondents), Ministry of Health (1), Ministry of Labour (4), Ministry of Justice (7) and Ministry of Transportation (1). Although Slovakia had elections in September 2002, only officials who were in their position during the period of 1998–2002 were interviewed, although some of the interviewees did not last the whole period, particularly in the political posts (see Figure 4 for survey respondent characteristics).

All senior officials interviewed – including the Heads of the Office – started working at their ministries with the change of the government in 1998, except for one general director at the Ministry of Justice who has been in his position since 1992.

The majority of political senior officials (including one head of the office) were career politicians who were members of parliament prior to their ministerial nomination. Only one state secretary at the Ministry of Health was not a career politician: prior to his nomination, he was deputy director of Slovak’s main insurance institution and also a medical doctor.

Figure 4
Interviewee Professional Profiles

<table>
<thead>
<tr>
<th></th>
<th>Ministers</th>
<th>State secretaries</th>
<th>Heads of the office</th>
<th>General directors</th>
<th>Heads of the units</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of interviewees</td>
<td>2</td>
<td>4</td>
<td>2</td>
<td>6</td>
<td>4</td>
</tr>
<tr>
<td>Educational background</td>
<td>lawyer (1) engineer (1)</td>
<td>lawyer (1) social scientist (1) engineer (1) medical doctor (1)</td>
<td>lawyer (1) social scientist (1)</td>
<td>lawyer (2), engineer (1), social scientists (3)</td>
<td>lawyer (2) social scientists (2)</td>
</tr>
<tr>
<td>Previous work experience</td>
<td>MPs</td>
<td>3 MPs PA (1)</td>
<td>MP (1) PA (1)</td>
<td>researchers professors judges</td>
<td>PAs</td>
</tr>
<tr>
<td>(post-1990)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Party membership</td>
<td>2</td>
<td>4</td>
<td>1</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

* The interviewee left this position because the 2002 Civil Service Act required heads of the office to be apolitical.

15 The interviews were conducted either by Katarina Staroňová or Ludmila Malikova, Associate Professor at the Political Science Department of Comenius University, Bratislava.
16 In 1998, the head of the office position was political and only with the coming into effect of the Civil Service Act in 1 April 2002 did this post become apolitical. One of the interviewed heads who was at the same time a member of the party left his position.
Professional senior officials – before their appointment to the post of general directors – had a long history of employment in their respective specialty. Director generals from the Ministry of Justice are former judges. Director generals from the Ministry of Education come from Universities or were teachers/directors in secondary schools. General directors from the Ministry of Labour used to be researchers in their field of specialisation. Thus, the government tried to depoliticise the level of professional officials by bringing in specialists, and as one interviewee noted to “bring the work of the Ministry closer to the real world and practice by appointing practitioners into these positions.” In 2002, only one out of the six interviewed general directors are no longer senior officials (because of death). The majority of civil servants below the senior officials (heads of the units) came to the ministries during the previous governments from either subordinated institutions of the Ministry or from the NGO sector – and none were involved in the political parties.

Both ministers perceive themselves to be key policy makers and leaders of their respective ministries, managing the organisation’s internal and external aspects. Both of them spend approximately half of their time on consulting, communicating and organising the agenda of/within the ministry with the senior staff, and their main effort focuses on “making things happen” (see Figure 4). Both of the ministers lead executive team meetings (minister, state secretary, head of the office and general directors) at least once a week, usually on Mondays, where all important decisions take place. The other half of their time is spent on managing policy issues with external stakeholders – ranging from interest groups, union representatives to political interests of coalition partners and members of parliament. Both of them spend considerable time focusing on relations between the ministry and the political leadership, particularly from the coalition partners. In this sense, both ministers perceived extreme pressure from coalition partners for the development of certain policies and personal representation in public agencies. One of the ministers confessed that one coalition partner in particular exercised enormous pressure on him to fill the positions of senior officials at the ministry from the ranks of the party.
Two state secretaries perceived themselves primarily as managers – partly as policy advisors in that agenda to the minister. The two state secretaries view this role as dominant – spending nearly their entire working time on policy issues and internal management (including budget preparation and personal management). Both state secretaries agreed that the division of the agenda and responsibilities between the minister and him (whether each is responsible for own agenda or both are responsible together for a common agenda) is the best and most efficient approach for dealing with the broad tasks of a ministry. The particular division of labour between minister and state secretary depends on the particular minister. Around 15% of working time was spent on consultations in various governmental advisory bodies or with members of the parliament; while negotiations for various interests represent another large area of working activities. Two other state secretaries, however, perceived their roles to be minimal, as they were responsible for only a very small, low priority part of the policy agenda. They spent little time on management and policy issues and in their opinion, most, if not all, of the Ministry’s policy issues were dealt with by the minister (and in one case mostly by a head of the office). Consequently, these state secretaries spent more time in negotiations and consultations with colleagues from the parliament and coalitions, as well as at various public events, ranging from opening a conference to leading press conferences.

These different perceptions of the roles of a state secretary only confirm the ambiguity of the role of the state secretary. As one of the “weak” state secretaries – a deputy ministry without formal authority or much responsibility – stated “the role and functions of the state secretary are badly defined in the Slovak legislation. The state secretary is entirely dependent on a minister and his delegation of authority, responsibilities and tasks – reflecting the impact of a coalition govern-
ment tensions reflected in the minister-state secretary relations. All of the state secretaries, however, regardless of whether they are strong or weak, felt tremendously the tensions among the coalition partners and complained how they are reflected in the work of a ministry. One of them stated that “the instability within the coalition and inability to reach a common decision was always present in a daily work of the ministry which made the daily routine more difficult”.

General directors perceived themselves as leaders and managers of their respective area within the ministry, as well as technically competent policy advisors. Four of the interviewed directors’ generals were appointed in newly established departments that they had to staff, set priorities for, and develop activities for. One of the respondents noted that a lack of a predecessor in the newly created department comprised the most attractive part of his job, as he could establish the department according to his vision, was relatively free to prepare policies under his supervision (except for budgeting), had given progress reports only weekly, and could claim credit for his achievements. The majority disliked the administrative/bureaucratic aspects of their post, particularly related to the exercise of authority (such as signing enormous amounts of documents). All the respondents viewed their relationship to the political leadership to be based strictly on their professional expertise.

Heads of the office perceived their role very differently – although such perceptions have changed since the new Civil Service Law. One head of the office perceived his role to be administrative (managing the office), while in the case where the minister and state secretary conflicted, the head of the office assumed de facto the role of a state secretary and that role was recognized as such widely. He noted that “my minister needs a trustworthy person so that he can divide the work load and fully concentrate on his part of the portfolio.” This office head could exercise independent leadership and managed his part of the ministry (including personnel and policy making processes) while not intervening into inter-ministries relations. ¹⁷

Both political and professional senior civil servant perceive themselves, as well as their counterparts (political or professional), as playing an important role in the policy making process within the ministry (see Figure 5). The state secretaries have their freedom in priority setting and decision-making (if provided by the minister), which they perceive to be the dominant part of their agenda. If such freedom is not provided, they are ignored and do not take part in the policy

¹⁷ This head of the office withdrew from the office after the introduction of the Civil Service Law in April 2002 and publicly announced his planned political career. He urged all the other heads to follow his example – claiming that withdrawal from the party membership is less transparent than withdrawal from office (and would not help depoliticise the office). He is currently a minister in the current government, and the state secretary in his ministry was also nominated by his party (even though she was not a member of the same party) based on her technical expertise.
making process. One of the state secretaries noted that she felt her input took only 20% of her time. The director generals felt that they had enough freedom in priority setting and decision making, particularly for substantive issues – yet had only little influence on issues beyond their competence. Many of the director generals who came from the “real world” and started their job only in 1998 perceived such involvement to be to their advantage because they understand “real” problems and have developed a useful set of contacts. While they recognized the role of the minister as a decision maker on political issues, they claimed that ministers are not sufficiently prepared for this role.

Figure 6
Perceptions of Freedom in Priority Setting and Decision Making within Ministry

<table>
<thead>
<tr>
<th>Priority setting and Decision making within Ministry</th>
<th>Freedom (percent)</th>
<th>Note</th>
</tr>
</thead>
<tbody>
<tr>
<td>Political</td>
<td></td>
<td></td>
</tr>
<tr>
<td>minister</td>
<td>100</td>
<td>Pressure within coalition</td>
</tr>
<tr>
<td>state secretary</td>
<td>20 - 100</td>
<td>Pressure from minister</td>
</tr>
<tr>
<td>Professional</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Head of office</td>
<td>20 - 100</td>
<td>Depends from minister</td>
</tr>
<tr>
<td>directors general</td>
<td>70</td>
<td>Freedom in substantive issues, priorities</td>
</tr>
<tr>
<td>unit head</td>
<td>30</td>
<td>Preparation of background material</td>
</tr>
</tbody>
</table>

Heads of the units stated that they are left out of the policy making and the decision-making process. They perceive their legitimate role to consist of mainly the administrative task of preparing documents for their superiors, and some would prefer to have more professional freedom. These heads complained about artificial deadlines which prevent them from producing high quality outputs, as well as the over-politicisation of priority setting at the expense of dealing with the most pressing issues. All the heads of units agreed with the statement that “for the good of the country, technical considerations must be given more weight than political factors in policy making.” Perceptions of the heads of units towards politicians varied among the ministries; some perceived politicians as good leaders endowed with good management skills and comparable with the best talent in the private sector. Other heads of units perceived politicians in the opposite light. The ministers’ and state secretaries’ personalities as well as their interaction (which was observed at all levels of the administration) best explain these differences in perceptions.

Most of the senior officials considered the policy making process to be relatively effective. The professional civil servants complained about the time pressure and bureaucratic procedures under which they have to work. They were dissatisfied with the amount of information at their disposal – particularly with access to information (as they are forced to spend a long time searching for relevant data) and the lack of
capacity to process and analyze data adequately, and the quality and objectivity of existing analyses at the ministries. Suggestions for improvement included systematic training that would increase civil service professionalism, the introduction of a merit-based system of promotion and the introduction of incentive systems. The improvement of the legislative process and its ‘humanisation’ (preparation of the draft laws based on public needs) were also suggestions for improvement.

Relationships among political and professional senior officials are perceived to be fair on both sides and better than they used to be. However, both parties list low trust as a key obstacle in the working relationships. The political senior officials blame professionals for a lack of technical capacity, and professional senior officials perceive their counterparts to lack necessary expertise for their work. One reason for low trust may be the continuing politicisation of the senior official posts (even though both senior officials and also heads of the units agree about a general decrease of political influence in the execution of tasks and particularly after the adoption of the Civil Service Law). The majority of the interviewees blame the weakness of the current Civil Service Law for on-going politicisation, and note that the Law is insufficient for governing these politico-administrative relations. The instability and tensions engendered by rule by a broad party coalition may be a second reason for such a lack of trust. These tensions are reflected within the ministry and are noticeable at even the third and fourth level of the hierarchy. One head of a unit commented on this situation by noting that “the way how parties cooperate is mirrored by the co-operation of civil servants.” A reason for the lack of trust between politicians and professional senior officials is due to the ambiguous definition of the state secretary’s position – causing shifts in the ministry’s hierarchy and differing powers between state secretaries (some are ignored and others are very powerful). As a result, none of the senior officials feel that the government (and thus also the ministry) works as a team the interests of political parties prevail. The majority of suggestions for the improvement of relationships between politicians and professional senior officials centered around creating conditions for greater respect for each other’s work.

**Conclusion**

The introduction of the Civil Service Law in April 2002 brought clear definitions into the relations among Slovak political and professional civil servants, and helped to depoliticize the civil service. The respondents of the public sector perceptions survey noted a general trend towards building up civil service professionalism. A weakly formulated Civil Service Law and missing definitions for civil servant responsibilities and roles in other laws, however, encourage differing interpretations of some posts, most notably the post of state secretary. As a result, the role of state secretary depends on the minister and his definition, which can range from acceptance of a state secretary as his deputy, to the marginalisation of this post. Senior officials and unit
heads recognised that coalition government fosters instability and conflicts between politicians and senior officials, influencing their quality of work.

References


Zákon č. 575/2001 Z.z. o Organizácii činnosti vlády a organizácii ústredných orgánov štátnej správy (tzv. Kompetenčný zákon) [Act No. 575/2001 on the Organization of the activities of the Cabinet and on the organization of the central institutions of the state administration (so called Competency Law)].

Zákon č. 312/2001 Z.Z. o Štátnej službe [Act No. 312/2001 on Civil Service].
Analyzing Policy Formulation in the Czech Republic: The Case of the Temelin Nuclear Reactor

Donald Fuller

Introduction

While the public policy process involves elected politicians and their subordinate bureaucracies, outside actors and institutions have policy interests expressed either through the formal legislative process, informal public/private interaction, or overt activities, such as public demonstrations. The media also influences policy through news and editorial reporting. Certain practices, such as referenda, may test the degree and magnitude of public concern for public policy issues. Yet, identifying the strength of outside ‘lobbying’ activity is difficult given the range of inchoate influences (which may vary by issue, in intensity and size) obfuscating the link between such inputs and policy outcomes. Many policy issues may remain on the agenda indefinitely (such as abortion or euthanasia), while others capture policy attention for short periods of time – waxing and waning.

If external actors are important in the policy making process, then the development of civil society would seem paramount for democratic development. Putnam (1993) has argued that an important ingredient in democracy is the development of social capital – significant civic society development is necessary to address public policy issues. Without such a civil society, democratic development will be retarded. This coupling of social capital and democracy, however, reflects a Western perspective. Putnam’s contrast of the Italian northern regions (with their higher social capital) and southern regions (with their lower social capital) sought to demonstrate not only a link between civil society development and democracy, but also with the level of economic development.

This paper will evaluate the role of “civil society” involvement in policy making for the specific example of the worrisome nuclear reactor Temelin. While many Czech groups expressed concern over the safety of the reactor, it continued to operate. As a post-communist country, the Czech Republic has no history of civic development and social capital, and where it does exist, it exists most likely
within government. The Czech public is wary, if not weary, of governmental utterances and feels that policymaking is the ambit of policymakers. Yet, the public has little trust and respect for politicians – reducing the incentive mobilize effectively in order to buttress the development of democracy – as shown in the Temelin case.

**Temelin Background**

The Temelin nuclear reactor is based upon technology from Chernobyl, and consists of two VVER-981V320 generators, each with a capacity of 890-megawatts, which can provide over 20% of the Czech Republic’s power needs when the plant is fully operational. The first reactor was connected to the national grid in December, 2000, but was shut down in May, 2001, because of circuit and turbine problems, and remained closed to allow an European Union (EU) inspection team time to assess the plant’s safety. In August, 2001, the EU inspection team found some minor flaws that could be remedied and declared the plant safe. The first reactor was restarted but shut down again within a week due to technical problems. The second reactor was started up in June, 2002 but was closed on March 6, 2003 due to “a leakage in the non-nuclear part” and was restarted on April 2, 2003. Tests lasting 18 months have been planned, to determine if plant operators could reduce output or shut down the plant if needed.

Given these safety-related shut-downs, the Temelin has generated substantial excitement both inside the Czech Republic and among its neighboring states. Temelin is situated 60 kilometers from Austria and Germany, ensuring that the effects of a nuclear disaster at Temelin would be felt in Germany and other bordering countries. Given such proximity, both Austria and Germany have expressed concern about the potential danger the Temelin poses. The Environmentalist Democrat Party (OeDP), a small party in Bavaria, Germany, threatened on March 5, 2003, to boycott its own energy company (E.ON) for allegedly reneging on its promise to refrain from buying energy from Temelin for distribution on the Bavarian electricity grid. The protest originated in Passau, near the Czech border, with the OeDP alleging that the Passau Municipal Assembly “shamelessly despises citizens”, and requesting (demanding might be more correct) that the municipality boycott E.ON if it continues purchasing electricity from the Czech Temelin plant through the Czech power authority CEZ). Civic groups, particu-

1 Much of the information from this paragraph was taken from the Energy Information Administration in March 2002.
4 Ceske Noviny, March 6, 2003.
larly those located near Temelin in or outside the Czech Republic have demonstrated against the continuation of the station.

Although the European Union (EU), has commented somewhat unfavorably on the Czech power station, it has determined that Temelin is an “upgradable” station and has permitted it to operate. Workers at the plant themselves claimed that the technical problems were not associated with the reactors, hence declared that the plant was safe and that, in general, sufficient safeguards exist to protect the public against any potential hazard. While there is no indication that EU accession will be contingent upon modifications or elimination of Temelin, such accession has not been supported on occasion by neighboring EU countries who, when raising the Temelin issue, have threatened to veto Czech accession. Such threats have arisen during domestic elections in Austria and Germany and have subsided from time to time at the formal state level.

The costs and benefits of the Temelin should be assessed against the next best alternative, which is hydrocarbon-based energy production. There are certainly costs of an accident or even disaster at the Temelin, both of which are factors that need to be considered, as is the disposal of nuclear waste. The benefit, however, derives from reduced reliance on highly polluting coal and scarce natural gas, oil, and hydro-electric power (though there is some), and wind and solar power (though bordering Austria uses limited wind power). The already high reliance on nuclear power for electricity production in the Czech Republic (19% as opposed to 78% fossil fuel, 3% hydroelectric and 1% other) reveals the necessity of nuclear power. Instead of switching, however, the risks of a nuclear accident could be reduced through careful management.

While various groups have an interest in shutting down the plant, others, such as Westinghouse, the plant engineer and technical administrator, have interests in heightening its security to the highest level and providing low cost (with or without externalities) electricity to Czech customers. The balancing of these interests have resulted in government preference for the status quo – for the moment. The Czech government has sought to privatize electrical energy – hoping to transfer a liability to the private sector – but so far, no sale has occurred. The government also has not announced any intention to close the reactor. Lacking any useful alternative to Temelin, unless the EU denies accession to the Czech Republic due to the Temelin, the government will maintain the status quo and live up to its agreement with Austria (Melk Agreement) in which the Czech Republic promises increased security for the Temelin.

---

6 The Melk Agreement was signed on November 29, 2001 by Austrian Chancellor Schuessel and Czech Prime Minister Zeman and agreed upon seven safety issues to be investigated and reconciled (WISE News Communiqué, December 7, 2001).
The standard public policy model can be used to analyse government policy toward the Temelin and consists of the following components: problem identification, issue definition, stakeholder analysis, options/alternatives, analysis and conclusions.\(^7\)

**Policy Problem And Issues**

The **policy problem** revolves around the government's need to provide power to the power grid while remaining sensitive to dangers of nuclear power and the polluting effects of hydrocarbon fuels. The government does not foresee the availability of alternative energy sources and its policy seems to focus on accident prevention, on the assumption that the public will tolerate the current amount of nuclear generated power in the current power grid in the absence of a nuclear accident.

The potential danger of a nuclear accident or explosion and subsequent harm to nearby populations is the salient **issue** affecting actors both within and outside the Czech Republic. The extent to which low-polluting alternative power sources can be substituted for potentially dangerous Temelin generated nuclear power depends on a number of factors. The first factor revolves around finding a publically tolerable electricity cost which includes externalities. Externalities are currently (and will probably remain) limited to maintenance and repair costs as opposed to any social costs incorporating the costs of pollution, the disposal of hazardous waste, or of an accident at the plant. The monopoly price for electricity is more likely to incorporate (or internalise) the social marginal cost to the consumer than any *a priori* calculation which adds the costs of negative externalities to the market price. Since the government owns Temelin, maintenance and repair costs can be recovered from the public budget rather than from electricity costs. If energy is to be finally privatised, the private provider would have to calculate and also to explicitly charge for external costs (probably remitting these to the public budget). A private provider, however, is more likely to only charge for actual costs – namely private instead of social costs – and consider a return on investment as well as the costs of energy provision. Given the likely high mark-ups of a private energy monopoly, government regulation would be required – and resisted by private providers who know that political pressure would encourage government to set too low a regulated price.

A second factor revolves around the decision to either purchase power from another country or purchase natural gas abroad and process domestically with low polluting thermal power plants. Purchasing natural gas from Russia or

---

\(^7\) See, for example, Dunn (1994), Weimer and Vining (1992) and Johnson (1991).
another provider is tempting and Russia would be more interested in transporting gas to Western Europe since revenue earned would be higher than for sales to former Soviet countries. Yet, serious discussion has not surfaced officially that the Czechs or the Russians would consider a gas ‘connection’ at present or in the future. A third factor revolves around reneging on a contract with Westinghouse (who is responsible for technically managing Temelin). The Czech government has contractual arrangements that must be honored in the absence of some critical lack of performance by Westinghouse. Even if the contract were renegotiable, the government would seem disinclined to renege – possibly reflecting their desire to use the company’s expertise and the view of the deal as a ‘fait accompli.’

A fourth factor revolves around continuing poor relations with two neighboring countries who could veto Czech EU accession. The Czech government has addressed Austria’s concerns (but not Germany’s) through the signing of the Melk Agreement.

The Czech government has responded to concerns over the Temelin when necessary. It responded, particularly, to the Austrians who, at the time, might have threatened an EU veto and, somewhat less, public demonstrations. The Czechs have engaged in a minimal amount of action without having to seriously consider Temelin closure in the immediate or near future. Czech management of the negotiation of party interests _ex parte_ (with the parties not being present) appears to have given each stakeholder something at the margin. The government did respond to demonstrators, although it did not seriously consider purchasing foreign natural gas. Westinghouse’s contract remained secure. Austria and Germany obtained the Melk Agreement which committed the Temelin to increased safety measures. The Czech government forstayed formal protest against EU accession.

**Stakeholders And Options**

**Stakeholders** in the Temelin affair comprise the Czech government and NGOs. Despite occasional demonstrations against the Temelin, and despite occasional outbursts from Austrian politicians such as Jorg Haider (largely confined to the November, 2002 election), the Temelin issue for the government has somewhat subsided. The government did not raise the issue, except when it conspicuously reported shut downs for maintenance and testing, indicating responsiveness to safety considerations. The “anti-Temelin” movement has included NGOs, politicians and other supporters, as shown in Table 1. The Hnuti DUHA has become

---

8 Westinghouse, Temelin’s technical manager, originally won the bid to manage Temelin under questionable circumstances. Having first submitted a higher bid, allegedly thanks to insider information obtained from President Klaus’ wife, the company resubmitted a lower winning bid.
the primary organizer resulting in annual “blockades” at Temelin. A “coalition” of groups continued local participation during the 1990s.

Table 1
Organisations and Individuals Opposed to the Temelin

<table>
<thead>
<tr>
<th>NGOs</th>
<th>Politicians</th>
<th>Foreign opponents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rainbow Movement (Hnuti DUHA)</td>
<td>President Vaclav Havel (former President)</td>
<td>Civilian Environmental Initiative (Czech-Austrian organization formed in Ceske Budejovice).</td>
</tr>
<tr>
<td>Children of the Earth (Deti Zeme)</td>
<td>Petr Pithart (former Premier)</td>
<td>Stop Temelin</td>
</tr>
<tr>
<td>South Bohemian Mothers (Jihoceske matky)</td>
<td>Jan Strasky (deputy premier)</td>
<td>Salzburg Platform Against Nuclear Danger</td>
</tr>
<tr>
<td>Calla</td>
<td>Ivan Dejmal (Former environmental minister)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Josef Vavrousek (Former environmental minister)</td>
<td></td>
</tr>
</tbody>
</table>

Externally, following the Melk agreement, active demonstrations became less intense. A blockade conducted on November 30, 2002 by the Lower Austrian branch of the Stop Temelin group resulted in a half hour blockade at Temelin. On April 17, 2003, four anti-nuclear activists fasted, in protest against Temelin, outside the Austrian Chancellor’s office in Vienna, resulting in the absence of a “desirable result.” Promising to continue applying pressure, the Salzburg Platform Against Nuclear Danger threatened to file lawsuits against Temelin. The result of Austrian protests have been to “numb” the Czech participants.

The Czech government has a number of options or alternatives in its long-term handling of the Temelin. As the EU wants to increase the share of renewable energy resources use in total primary energy resources to 12% in 2010, the Czech government must search for reasonable alternative energies. Coal is the most abundant energy source and is situated in lower Silesia, a region with high unemployment. While a return to coal would militate unemployment, with existing technologies, air pollution would significantly and undesirably increase. Insufficient domestic natural gas (which is less polluting than coal) exists to to meet the

9 WISE News Communique, October 20, 2003.
10 Later part of the Friends of the Earth International.
Czech Republic’s energy needs – and would thus need to be imported. Wind and solar power have not been utilized in the Czech Republic. Hydro-electric power generation is limited to mountainous areas which cannot supply more than a small portion of the country’s energy needs.

**Analysis**

Putnam has stressed the contribution of civic engagement to the political process – an engagement which appears lacking in the Czech Republic. According to international comparisons in the Freedom House World Values Surveys, the Czechs do not surpass the international average in joining voluntary organizations, but they also do not stand out with high levels of regime disappointment either. The Czech data indicate a certain malaise toward politics, joining voluntary organizations and, in Putnam’s term, “cooperating to overcome social problems.”

Dowley and Silver (2002), using the Freedom House World Values Surveys, looked at several dimensions of democratisation and social capital while constructing their own variable of participation in voluntary organisations.¹⁴ Some measures from the World Values Survey included questions such as ‘How interested would you say you are in politics?’, ‘Participation in voluntary organizations’, and social trust as measured by ‘Generally speaking, would you say most people can be trusted or that you can’t be too careful in dealing with people.’ Correlating the results of these questions, Dowley and Silver concluded that “social capital is not correlated with democratisation in these post-communist countries” (including the Czech Republic). In fact, they found that “mean levels of social trust and organisational membership are consistently negatively related to levels of overall democratisation across the 20 post-communist countries” (Dowley and Silver, 2002: 509).

Dowley and Silver analyzed other descriptors looking at ‘regime performance’, ‘democratic principle’ and ‘political institutions.’ They found that “social capital does not seem to contribute to democratic development” – postulating that minority populations would typically report lower levels of pride in the country and that ethnic pluralism might promote support for the political community. The Czech data were taken, however, for Czechoslovakia, placing the Slovaks as the minority (as well as the Roma populations). Both the Czechs and Slovaks also exhibited little pride in the country (the Czechs slightly more negative than the Slovaks). Gaps between majority and minority groups were statistically significant, and the Czechs and Slovaks in the early 1990s were “far more interested in politics than the rest of the ethnic groups in

---

¹⁴ Such voluntary organisations included church or religious organizations (later excluded by Dowley and Silver as they are ‘hierarchical’), sport or recreation organisations, art, music or educational organisations, trade unions, political parties, environmental organisations, professional associations, charitable and other voluntary organizations (Dowley and Silver, 2002: 508).
the region...This high level of interest did not signal interest in the polity, but instead polarization and subsequent dissolution of the state,” ostensibly in separating Czechoslovakia into the Czech and Slovak Republics ((Dowley and Silver, 2002: 518).15 Indeed, in multivariate analyses of social capital, they find that “high levels of explicitly political interest among ethnic minorities do not represent social capital in the making, but perhaps political mobilization against democratic development.”16

Civic activity has not mobilized the Czech public into supporting or being hostile to policies, including the policy toward the Temelin (with the possible exception of the split into the Czech and Slovak Republics). If policy change occurred, it was due to external influences, such as the disparate reactions from NGOs and scattered responses from Austria and Germany or the threat of losing EU accession. With regard to the hunger strike previously mentioned, in January-February 2003, as Austrian activists commenced a series of hunger strikes that they promised would continue to Easter, the Czech anti-nuclear organisations did not participate, commenting that, in the Czech Republic, hunger strikes are not seen as a “form of protest that could address politicians and the public efficiently.”17

Conclusion

At the present moment, the Czech government represents a major interest group and is in a position to exercise its power in favor of public policy decisions that it supports while paying lip service to domestic interest groups. Competing interest groups such as environmental groups and trans-border interest groups (including trans-border governments such as Austria and Germany), have been unable to counter Czech government interests with public pronouncements and demonstrations. The government has preferred a ‘wait and see’ policy regarding the Temelin nuclear reactor plant. Capitalizing on a somewhat apathetic public (in the Temelin case specifically), the government seems able to apply enough pres-

15 In contrast, the Russian majority in Russia was the least supportive of democratic principles, the least satisfied with their current government, and among the least confident in new governing institutions of the majority populations of the sample.

16 Observing a “peculiar trait of postcommunist societies, that since civil society was destroyed by the communist regime, there are only a few weak civil associations, unions, interest organizations and autonomous communities” (Tokes, 2002, p.116). Vass noted in Hungary “During the first four years of the multiparty system the over politicized character of the public and (to some extent) private spheres hindered the development of civil organizations...The activists and leaders of civil groups became involved in party politics...Such ‘overlapping’ of personnel contributed more to party influence on civil society than to influence on macropolitics by civil organizations.”

17 Ceske Noviny, February 20, 2003. Despite the rhetoric, the Austrian protest terminated after four hours.
sure in favor of its policy preferences when needed. If pressure for policy change were to come, it would come from the EU which is now emerging as an important ‘interest group’ that may easily transcend the efforts of Austria and Germany to object to Czech nuclear power policy. The Czechs will, however, like the other EU members, be able to challenge EU intervention.

The effects of civic engagements on developing democracy may suffer from a postcommunist overhang (or hangover) in which the Czech public is wary if not weary of civic action. In the short run, the public is inclined to leave political agendas to the politicians – meaning that the avenue for postcommunist policy change may still reside primarily within the government.

References


________________________, (2003), March 20, “Ten EU Candidates Clear a Membership Hurdle.”

________________________, (2003), April 17, “10 Countries Sign Treaties to Join EU: Current Members Seek to Bridge Rifts,” p. 8.


Section III

Changing Relationship between the Nation and the Region
Toward an EU Regional Policy: Challenges and Realities for Accession

Peter Szegvari

Innovative approaches are needed to address the new functions of the regions in European Union (EU) accession countries. The implementation of the European Common Regional Policy and the Principles of Subsidiarity opens new opportunities for the regions of the former transition countries, given current social, economic and political disparities between municipalities, as well as increasing differences in regional administrative capacity and regional democracy. This paper will review the role of the regions in the European Union and explore whether the different functions of regions would be relevant for accession countries.

Background: Toward a Regional Policy of the European Union?

Currently, European Union member country regions serve two functions. First, regions are used mainly as statistical, planning and programming entities implementing the national government's regional development policy. Second, regions are semi-autonomous or “sub-sovereign” – with their own system of administration and governance. Given these two functions that EU regions play, EU policies of either serve the end of regionalisation, with its common structural and cohesion policy, or the end of regionalism, with the modernization of public administration and the democratization of governance structures militating for the creation of a ‘Common Administrative Space’ and ‘Europe of Regions.’

The differential institutionalisation of the EU’s common and community policies reflect these two differing regional functions (Nugent, 1997). While regional development falls under the common structural and cohesion policy under the Maastricht Treaty’s First Pillar, public administration and regional governance issues belong to the Third Pillar. First Pillar policy operates mainly through EU’s autonomous institutions – the European Commission using the Structural Funds. Third Pillar policy is based upon member country contributions, and is dominated by the European Council complying with the Principle of Subsidiarity (Boulouis, 1991). Hence, while the First Pillar
has a *direct effect* on the national regional policies (because of the mandatory EU regulations and the decisions), the Third Pillar has an *indirect effect* because EU directives are only recommendations to Member States and are implemented in accordance with national traditions and legal institutions (Rawlinson and Cornwell-Kally, 1994).

For accession, candidate countries should *strengthen regional capacity* (existing as statistical, planning and programming entities) to *comply with the Common Regional Policy and to effectively and efficiently use Structural Funds and the Cohesion Fund.*¹ A Regional Policy of the European Union should be established. While *no uniform model exists for a system of regional government in the EU,* some principles of regional democracy do present new challenges in accession country national governments. The implementation of some of these principles, advocated in *Europe's ‘New Public Management’ such as* effectiveness, efficiency, quality and good governance, will pose *new challenges mainly in the transition countries* (EC, 2001; EIPA, 2000). National governments should assess the role and function of the Regions in their Public Administration System, and if need be, strengthen Regional Authorities by delegating power from the National Government (through de-concentration or decentralisation). National Governments should also involve local governments (municipalities) in public services management at the regional or sub-regional level (integration). In the European Union, *regional democracy is not directly regulated* because it belongs to the Third Pillar – thus falling under Home and Justice Policy, and is implemented based on national law according to the principles enshrined in the *acquis communautaire.* Every member and candidate country should look after the broader construction of Europe which could be emphasized in the 'European Charter of Regional Governance' (EP, 1988; COR, 2000). To understand the role of subsidiarity in such a Regional Charter requires an understanding of regional policy in the European Union (CCRE, 2002; EP, 2003).

**Regional Policy in the European Union**

Significant social and economic differences exist within the EU. Regional capacities represent the main structural obstacle for social/economic cohesion. There is a more than a five-fold differential in income between regions in the EU – the Greek Ipeiros Region has 44% of the average income of Europe's regions, while Inner London has 224% of this average in 1998 (EUROSTAT, 1999). Six out of Europe's 208 regions have 50% or less of Europe's regional average income while 158 of these regions rate in the top 25%.² At the national level, within most of the member states, there is a twofold difference between the most developed and most underdeveloped regions

---

¹ The lack of regional absorption capacity for EU funds is one of the reasons why the EU suggested that accession countries manage the Regional Operative Program at the national instead of regional level until 2006.

² According to the 1260/1999 ER on Structural Funds, any region which falls below 75% of Europe's regional average income is eligibility for funds (EC, 1996/1c).
(EC, 1996/1a). Thus the main goal of European Regional Policy should be to decrease income disparities by strengthening regional capacity and competitiveness.

Some domestic economic structural problems also create regional economic challenges, as some economic sectors, like mining, steel, shipping, textiles, and farming are regionally specific. The shift from unproductive industrial or agricultural activity to more innovative production and service delivery can have large impacts on specific regions. Thus, another goal of European Regional Policy should be to (through subsidiarity) aid the coordination of domestic regional policies.

As with regional income differentials, national differences can also reduce solidarity. With EU enlargement of Greece, Spain and Portugal came the increasing polarisation of welfare (given these countries’ lagging levels of GDP). Accession of Central and Eastern European countries also led to member states’ recognition that economic convergence could be endangered unless social/economic cohesion was strengthened (EC, 1996/1b). Thus, the Cohesion Fund was established in the Treaty of Maastricht. European Regional Policy included social/economic cohesion between the member countries and their regions.

The EU’s Structural Policy is concerned with using financial incentives and co-ordinating the domestic regional policy of member states. European Regional Policy harmonises with the other common and community policies, and promotes the implementation of regional policies, such as European Competition Policy, by using Structural Funds and Regional State Aid to promote competitiveness. Since 2000, the EU’s Structural Policy has concentrated on including under-developed regions (those with incomes less than 75% of the European regional average, sub-regions having significant social and economic problems due to general economic or social change (such as mining), and other regions seeking to develop the human resources needed to strengthen the capacity of these areas and to ensure the social/economic cohesion at the regional level.

To achieve these objectives, European Structural Policy could be implemented according to the principle of subsidiarity (Wallace and Young, 1997). Local, regional and national government activities could be replaced by community policy supplementing domestic regional policy, but should be limited by the principle of additionality. Additionality would require that Structural Funds be used in cases when requesters’ resources do not completely (but partially) cover regional program ex-

---

3 The importance of such cohesion dates back to Treaty of Rome and has been expanded with the establishment of the European Regional Development Fund and the Committee of Regional Policy.

4 EC Regulation 1260/1999 allowed the low population density areas of Finland and Sweden, France’s Overseas Departments, the Canary Island, Azury Island, and Madeira special regional consideration (EC, 1996/1c). EC Regulation 1260/1999 provided money for regions in ‘heavy difficulties’ as defined by high unemployment rates, significant poverty, environmental, high criminality, and low levels of education (EC, 1996/1c).
penditure. Following the *principle of co-ordination*, more than one of the Structural Funds could be used to fund the same programme.

European Structural Policy should conform with the Community Supporting Framework (CSF). The Framework is a mid-term agreement between the European Commission and member states’ governments covering sectoral and regional policy. The Framework supports regional policy by mandating a regional development program based upon horizontal (inter-sectoral) as well as vertical (inter-governmental) consultation according to the *principle of partnership*. The draft review on European Structural Policy implementation mainly notes that *regional policy seeks to harmonize the several community policies* and tries to create coherence between them (especially for competition policy). Such harmonisation can be achieved through the use of Structural Funds as well as through State subsidies or fiscal expenditure.

The Treaty of Rome viewed the supporting of a common regional policy as being consistent with the principles of competition policy through assisting underdeveloped or high unemployment areas. *This principle could also be implemented in the member countries* – State subsidies could be given as part of national regional policy to support regions, which are lagging not only by EU regional standards, but also by national standards. Support to underdeveloped areas consists of additional resources to promote job creation and the subsidies for current operating costs. According to the 1988 European Commission Directive on the National Regional Aid, national regional aid could be used only in disadvantaged areas to promote competitiveness and job creation (OJ C 74, 1998).

**Principles and Requirements of Regional Policy**

EU primary legislation on the regional policy is less influential than secondary legal norms and the *acquis communautaire* (Prechal, 1995). There are many principles and requirements of the European Regional Policy which should be adapted into the national regional policies of the accession countries. The four principles Subsidiarity, Decentralisation, Partnership, and Openness/Participation are key principles of European Regional Policy.

---

5 Regional programs should also follow the “principle of programming” mandating the inclusion of social/economic considerations, an environmental impact assessment, as well as a consideration of the programme’s strategy, objectives, measures, and resources. When the initiator is a local or regional government, co-financing arrangements between national and local authorities must also be included.

6 See the European Court Reports, 1987 (4013 and 4042 cases).

7 According to the European Court, additional resources should be proportional to original investment costs and the operating cost subsidies must be compatible with the principle of sustainability.
Subsidiarity promotes autonomy and responsibility in local community management of their own issues through encouraging the use of local resources and through recourse to national contributions when local resources are insufficient. The principle of subsidiarity is enforceable not only between the European Union and its member states, but it is also relevant between national governments and local/regional ones (EC, 2001). By the principle of subsidiarity, national governments should decentralise decision powers and strengthen the capacity of local/regional decision-makers. The principle of subsidiarity promotes regional as well as central decision-makers, and must determine national objectives and encourage local/regional decision-maker compliance with national regional policy. Unlike a command-based system, when central authority decision-makers decide policy instead of local/regional authorities, central government should cooperate with the local/regional decision-makers – just like European institutions must co-operate with the national governments by the principle of subsidiarity (CRAM, 1997).

The principle of decentralisation is closely linked with the principle of subsidiarity and can be applied in areas where tasks are not managed efficiently or at all at the local/regional level (thus requiring higher level oversight). Decentralisation involves the delegation of power from the central level while promoting cost-effectiveness and co-operation. Decentralisation also requires citizen participation in the policy-making process at all levels of governance – including at the European Union level (Wallace and Young, 1997). Decisions are taken at the level in which the problem arose – keeping in mind the necessary balance between the principles of decentralisation and autonomy.

The partnership principle requires participatory policy making at the regional level (Kirchner, 1992). Responsibilities and regional development programmes are shared between national and local/regional governments as well as between the public and the private/civil sector. The partnership principle should also apply in the programming and planning of regional development, and the legitimacy as well as efficiency of regional development programmes require a ‘bottom-up approach’ (CRAM, 1997).

The openness principle ensures transparency and accountability in regional development policy making, especially for resource redistribution. The participatory principle could assist in local development planning and programming if stakeholder representation in decision making bodies were improved (Wallace and Young, 1997). Both these principles seek decision participatory mechanisms involving the redistribution of the regional development resources. The openness and participatory principles are especially important for efficient and effective regional development because they promote the inclusion of local/regional resources and the development of the ‘social capital’ necessary for successful implementation. Spatial planning and regional development programming should be
legally regulated according to these principles and local/regional traditions and circumstances – while ensuring the rights of citizens and local communities to take part in regional development institutions and decisions.

There are no \textit{general requirements} – aside from compliance with general principles – for the institutions and the content of regional programs. Instead, regional policy measures must conform to requirements concerning their complexity, co-ordination and co-operation, and systemicality. Regional policy must be \textit{complex} in the sense that a system of structural policy instruments and linkages with State institutions must be developed. If sector policies do not address territorial aspects, or if regional policy instruments and institutions are separated from the wider system, regional policy objectives can either only be realised inefficiently or not at all. Without the complexity of the regional programming and development, regional policy goals could not be reached. Thus, all governmental bodies at the local, regional, national and European level must ensure the regional approach in economic and strategic sector decisions.

The success of regional policy mostly depends on the \textit{co-ordination} and concentration of stakeholders’ activity, using resources for collectively-targeted objectives. Promoting the principle of partnership, vertical and horizontal co-ordination (and co-operation between the key-player in certain regional development issues) enforces the regional policy approach – especially in regulation, the redistribution of resources, in service delivery and in economic development. Thus, such co-ordination applies only to sector and economic planning and in the redistribution of state aid. The public administration must also incorporate regional policy into its environmental, human resource development, and territorial information systems. \textit{Systematicality} requires that regional policy is based on programmes which address surveyed needs, and is evaluated based on territorial administrations’ choices of instruments. Systematicality also implies that support for regional development should only be available if the project corresponds to the multi-annual programme for regional development.

The \textbf{financial instruments} of regional policy should also comply with the requirements of harmonisation, decentralisation, concentration, additionality, programme-orientation, multi-funding, and they must also be rule-based yet flexible. Regional finance should be \textbf{harmonised} with the national fiscal and monetary policy. While regional policy impacts on territorial development, such development often depends more on nation-wide economic conditions and other factors, rather than regional policy (EC, 1996/1a). Regional policy finance should be harmonised with the general (European and national) fiscal and monetary (or economic) policy – and fiscal and monetary (or economic) policy should take precedence over regional policy. The \textbf{decentralisation} regional resource allocations should also link to the principles of subsidiarity and the decentralisation. Local/regional development seeks the support of the higher tiers of government (including the European
level), but local and regional policy making (as well as national policymaking vis-a-vis the EU) should be determined by concrete objectives and measures affecting the distribution of regional resources and the use regional financing instruments (such as debt-instruments). Such decentralisation requires the strengthening of local/regional financial capacity as well as their own resources. The concentration of regional resources increases the effectiveness of regional policy by focusing on priority areas and preventing resource dissipation. These resources should be concentrated in underdeveloped areas and the main priority should be the establishment of sustainable regional economies and job creation. The requirement of additionality suggests that in a market-oriented economy, regional policy should encourage local/regional actors to use their own resources for local/regional development, which could be supported by national or European subsidies. The transparency of the system requires regulation by law, while the principle of openness (and partnership) requires that incentives should exist for the private sector to invest in the regional development. For projects supported by regional subsidies, additionally, necessary own resources should be publicly disclosed.

Regional development must be supported by programmed finance (rather than one-off project finance) and, specifically, financial instruments whose term structures and flexibility match the possibly complex regional development programme structures and objectives. The regional development programme can sometimes involve multiple sectors and territorial aspects and finance from several sources (or multi-funding). More complex regional programmes with broader objectives should have priority finance. Programming is related to the partnership principle as the regional development programme’s preparation requires vertical and horizontal co-ordination. Programming is also linked to the concentration principle because the integration of several objectives and sources of finance would require the prioritisation, and thus concentration of, financing instruments. Finally, financing should be ruled-based yet flexible. Rule-based financing decisions promote transparency and accountability, yet flexibility is also required to take into consideration special circumstances (EC, 1996/1d).

The Structure and Finance of Regional Policy

The European Statistics System try to match the two approaches to regions – treatment as semi-autonomous entities and as representatives of the national government – by developing an objective statistical classification for territorial units (Dehousse, 1994; Cloos, 1994). The Nomenclature of Territorial Units for Statistics (NUTS) provides a common yardstick to help survey the capacity and

---

8 The preference for broad-objective programmes is one of the reasons why EC Regulation 1260/1999 focuses on regional-level support for European Structural Funds (EC, 1996/1c).
territorial problem of regions. The NUTS system defines three regional levels (NUTS I-III.) and two local ones (NUTS IV–V) for the regional development policy. This framework must be used by all member countries is based solely on the country's own administrative units. The member states may, however, define their own NUTS system – defining territorial units for statistical and planning purposes, which do not become ‘sui generis’ administrative or political entities. Given the relative freedom of member states to define NUTS regions, several such regions with different sizes and populations (and especially with different legal status) exist. In Portugal for example, there are 5 + 2 NUTS level 2 regions for regional development policy, but these regions do not have a role in the country’s public administration nor in regional self-government.

Different nationally defined NUTS systems limit the ability of the European-wide NUTS system to provide objectively comparable data across regions. In some cases, there is no direct correlation between the NUTS system and the country’s public administration structure. The European Commission has been trying to reduce the ability of member states to define their own NUTS systems. In 2001, the Commission prepared a proposal for a European Parliamentary and European Council regulation establishing a common classification of Territorial Units for Statistics. The standardization of the NUTS system will try to establish the best measures of regional areas for use in regional policy (and especially for lagging regions). 9

The historical development of the EU’s regional policy is illustrated through its changing methods of finance. In 1975, the European Regional Development Fund (ERDF) was established as one of the main financial instruments of European structural policy, aiming at harmonising and improving common and community policies in the underdeveloped regions. 10 The three main financial instruments currently used to support the implementation of the regional policy are Structural Funds, the Cohesion Fund, and the Community Initiatives Supporting Framework.

---

9 Such a standard measure will rely on member states’ average measures which defines a “level 2” sub-region as having on average a population of about 1.8 million people (Eurostat, 1999) With member state data, the Commission has proposed that the standard size of NUTS level 2 sub-region to be between 800 thousand to 3 million people (COM 83, 2001).

10 Regional policy concerns economic investments or the development of physical infrastructure (like in health, education, tourism, transport and telecommunication). Regional policy seeks to strengthen underdeveloped area capacity to promote competitiveness and innovation – thus include Small and Medium Enterprise (SME) support and the research and technological innovation. Social policy mostly aims at reducing unemployment rates (especially in underdeveloped regions). Agrarian and rural development policy deals with the social/economic and environmental problems of rural areas and with agrarian restructuring.
Structural Funds are the most important financial instrument of the structural regional policy. Structural Funds are mainly used to encourage regional policy compliance (supported by the European Regional Development Fund), social policy (supported by the European Social Fund), and the implementation of the agrarian and rural development policy (supported by the European Agricultural Guidance and Guarantee Fund). Structural Funds, as a proportion of the European Union budget, have doubled from 1987 to 1993 (EC, 1996/1c). With the programme Agenda 2000, such funds cover more than one third part of the EU budget (EC, 1997).

The Cohesion Fund was established in 1993 in the Treaty of European Union for those countries with relatively weak economic performance. While the Cohesion Fund’s objectives broadly support the goals of structural policy, the fund is different from Structural Funds (EC, 1996/1c). Eligibility for Cohesion Funds is based on absolute rather than the relative criteria of Structural Funds. The Cohesion Fund may be used solely for environmental and transport infrastructure investments – and not only in underdeveloped regions – and even these funds must support the objectives of the European common and the national sector policies. Finally, Structural Funds prefer program finance while Cohesion Funds mainly use project finance.

The Community Initiative Supporting Framework was established in 1988 to support certain community programs and equalize regional impacts of national regional policies. The Framework offers incentives to co-operate on programmes that cannot be enforced by the member states or cannot be agreed through international/interregional co-operation. Agenda 2000 has determined that Framework resources should comprise 8% of the EU budget and reduced the number of Framework objectives from 13 to 4 (EC, 1997).
Regional Democracy in the European Union

No uniform model or direct regulation for the public administration and local government system exists for the European Union. The lack of such a model mitigates for a role for regions in the 'middle level' level of the public administration system with 'sub-sovereign' governance (such as local self-governments depending on the home policy of the particular member state). Such a role could be guided by the existing directives and principles of the European Union with regards to regional governance, which should be enforced by the member states in their own way, taking into account their domestic political circumstances and traditions. During the elaboration of the 'European Constitution', the role of regions for regional democracy in the present and future European Union should be considered (Batley and Stoker, 1991; EP, 2003).

Regions have a role given the basic EU principle of subsidiarity. Such subsidiarity applies at all levels, European, national, regional and local (EC, 2001). Given subsidiarity, much European Union policy favors the decentralisation of the domestic public administration system and the democratization of the member state governance, where regions have a preferred role and status in such decentralisation and democratisation.14 The accession countries will face many of the same challenges in determining the role and function of their public administration regions and their local/regional government structures. According to the principles of the Community Charter of Regionalisation (CCR), the member states must regulate in the Constitution and in the laws the rights of the regions and the guarantees of constitutional or legal rights (EP, 1988). The CCR also stipulates that regional borders should not be changed without the region's agreement, and regions should be given the legal right to bring presumed violation of their legal rights before a court.15

The CCR describes the right of regional consultation in the national decision making process when decisions have an impact on the region and also advocates the right of regions to participate in European institutions and decision making processes. The CCR also advocates regional financial autonomy (including regional taxation rights). The Committee of Regions of European Union (COR) takes a more radical view of regional governance than the CCR proposing the decentralisation of real competencies from the central level (COR, 2000). Such “region-

---

15 The CCR defines a region as “the biggest territorial administrative entity of the state” – a so-called 'middle level' between the local and national governments. Regional governments require an elected body and an executive as well as the right of self-regulation. The region should have a general public administrative authority and clearly defined own as well as delegated responsibilities from the central government.
“Toward an EU Regional Policy: Challenges and Realities for Accession” also aims not only at such decentralisation but also greater participation in the decision-making processes of the European Union.

Such trends militate for regional self-government management of regional tasks and responsibilities instead of simply on behalf of state public administration authorities. Following current trends in the EU, the competencies of regions would cover regional economic policy, regional development affairs, housing policy, telecommunication and transport infrastructure, energy and environmental policy, agriculture and fisheries policy, education, research and innovation, culture and media policy, public health, sport and tourism, regional public order and security. Thus, financial and human resources should be shifted from the de-concentrated regional state authorities to regional self-governments so that financial resources are available (and regulated by law or even the Constitution) to cover activities within their competency.16 In general, the role of the regions extends beyond “regional policy” but also includes wider questions about the role of the whole public administration and future institutional division of power. Thus, these questions cannot be determined by member states' domestic policy — but will probably have to be determined by organisations like the European Parliament and their commitment to amend the Treaty of European Union.17

The regions could be active participants in the decision-making process of the European Union. Regional governments have an interest in directly (through formal institutions) or indirectly influencing (through lobbying) European regulation on their responsibilities and the distribution of European funds between them (Van Schedelen, 2002).18 While main decisions on the common policies, including regional policy, are mostly initiated by the Commission and adopted by the Council (and for certain issues after Parliamentary and even Committee discussion), regional/local governments could take part directly through their representatives as the member of the Committee of Regions of European Union (COR).19 The Treaty of Maastricht mandates obligatory consultation with the COR on educational, cultural and vocational issues, youth and public health policy, the trans-European network, social and economic cohesion and other is-

16 The delegation of power from the central level of governments to the regional/local levels under the umbrella of ‘regionalism’ could be characterized mostly as ‘decentralisation’ instead of ‘de-concentration’ (Batley and Stoker, 1991).
17 The European Parliament have made a proposal to amend Article 6 (3) of Treaty of European Union which states that “The Union shall respect the national identities of the Member States, their domestic structure and the autonomy of the regions and municipalities” (EP, 2003).
18 For more, see Wolesa (2002) and Holm (2002).
19 Regional representation in the EU depends on domestic regulation and the agreement between the nation and regional/local governments. Article 203 of the Treaty of Maastricht allows federationed nation-states (like Germany and Austria) to place regional government representations in the Council when the Council deals with community regulation impacting the regions.
sues which have relevance for the competencies of the regional governments. While the Treaty calls for mandatory consultation, it does not call for obligatory acceptance of COR recommendations. These recommendations are often accepted though, due to the reducing institutional ‘democratic deficit’ in the EU and to promote the legitimacy of their decisions (Wallace and Young, 1997). The European Parliament has also advocated greater participation of regional and local authorities in the European decision-making process, as early as the stage when Community policies and acts are being devised (EP, 2003). The European Parliament noted that a number of organizations should have the opportunity to take part in EU discussions on behalf of the regional/local authorities including the Conference of Local and Regional Authorities in Europe, the Assembly of European Regions, the Association of European Border Regions, the Conference of Peripheral Maritime Regions, the Council of European Municipalities and Regions, and the EUROCITIES (EP, 2003).

Conclusion

The principle of subsidiarity opens new horizons for the regions in the European Union to act like the partners of national governments and European institutions in the European policy-making process. They shall have an increasingly significant role in the European integration.

References


Committee of Regions of European Union (COR) Draft proposal on the ‘European Charter of Regional Governance’ (accepted on 13th of December, 2000).
Toward an EU Regional Policy: Challenges and Realities for Accession

Committee of Regions of European Union (COR) : Draft Opinion on the ‘Role of Regions and Local Authorities in European Integration,’ (accepted on 23rd of October, 2002).


European Commission (EC) Europe at the service of regional development. OOP, Luxembourg 1966/1a.

European Commission (EC) How is the European Union meeting social and regional needs? OOP, Luxembourg 1996/1b.


European Institution for Public Administration (EIPA) : ‘Innovative Public Services’ Conference on Best Practice (Lisbon, 10 to 12 May 2000) and ‘Common Assessment Framework (CAF)’. Maastricht, April, 2000.


Changing Relationship between the Nation and the Region


Democratic, Decentralisation and Efficient Regional Governance: Politico-Administrative Relations in the Polish Regions from 1989 to 2003

Tatiana Majcherkiewicz

Introduction

A natural precondition for the creation of a democratic and efficient state consists of clearly defined political and administrative positions as well as the formation of a professional and apolitical civil service (Kurdycka, 1998; Grosse 2001). In contrast to the radical economic and political reforms, Polish administrative (and civil service) reforms lagged substantially (Nunberg and Barbone, 1998).

The professional qualifications, and ethics, of politicians also comprises an important precondition, as Gintowt-Jankowicz (2000) notes, “The experience of countries with long democratic traditions shows that one of crucial factors although not the only one is administrative performance cannot be improved without improving the competence of the political class. It is a necessary requirement although it is not sufficient”.

The development of democracy also requires the devolution of political power – an issue particularly relevant to Central and Eastern Europe, which during socialism went through an extreme form of centralisation. In Coalition governments, policy towards regional public administration and politico-administrative relations can be distinguished through four main periods. First, (1989-1993) when the politico-administrative relations began to be defined and a fuzzy ‘borderline’ existed between political and administrative personnel. Second, (1993-1997) when a spoils system was introduced and was used by successive governments to distribute posts among coalition partners; fixing of ‘borderlines’ between political and administrative personnel was also undertaken. The third period, (1997-2001) saw the blossoming of the spoils system and attempts to redefine the politico-administrative ‘borderline’. The fourth period, (2001-2003)
was the period when the ‘borderline’ was formally defined, with attempts to expand political control on the civil service.\(^1\)

**Lack of Division Between Administrative and Political Positions (1989-1993)**

After the Round Table Talks in Spring 1989, political changes intensified, and at the end of August 1989 power went unexpectedly to Solidarity (the former anti-communist social movement), with the appointment of the first non-communist Prime Minister, Tadeusz Mazowiecki. The government lasted for just over a year, followed by a succession of three post-Solidarity governments. These frequent changes of governments were accompanied by the appointment of new ministers (with the exception of the second Bielecki government, in which 8 out of 19 ministers came from Mazowiecki’s government). Personnel changes at the regional level were relatively uncommon. However, Mazowiecki was the most active in the appointment of new voivodes (heads of public administration in regions), having appointed 43 voivodes out of a total of 49, but even his extensive changes were delayed for a year, compared to national level changes. His successor, Bielecki, appointed only 12 new voivodes and similar trends were seen in the last two post-Solidarity governments.

**Figure 1**
A Chronology of the First Two Eras of Polish Government

<table>
<thead>
<tr>
<th>Post-Solidarity Governments</th>
<th>Post-Communist Governments</th>
</tr>
</thead>
<tbody>
<tr>
<td>12 September 1989 to 14 December 1990</td>
<td>26 October 1993 to 1 March 1995</td>
</tr>
<tr>
<td>July 1992 – May 1993</td>
<td></td>
</tr>
<tr>
<td>Tadeusz Mazowiecki</td>
<td>Waldemar Pawlak</td>
</tr>
<tr>
<td>Jan Krzysztof Bielecki</td>
<td>Józef Oleksy</td>
</tr>
<tr>
<td>Jan Olszewski</td>
<td>Włodzimierz Cimoszewicz</td>
</tr>
</tbody>
</table>

The politico-administrative relationships during the string of post-Solidarity governments were “revolutionary” – in relation to government policies in general, they only began to be formulated with Solidarity’s sudden and unexpected

---

1 For more information about the development of national level politico-administrative relations, see Majcherekiewicz (2004).
rise to power. Prime Minister Mazowiecki and Solidarity lacked a comprehensive vision for the political and administrative transition from a socialist to a democratic state (Dudek, 2002: 99-100).²

The unexpected shift of power to Solidarity in June 1989 also had an influence on personnel policy, for Solidarity, which was completely unprepared to create a national government. As a consequence, there was no coherent policy towards regional administrations (changes started only with a year delay in 1990). All four post-Solidarity governments have shown limited adaptation to the challenges of forming governments and to the challenges of ruling in the regions, because they lacked their own political and administrative cadres.

No clear criteria for qualifications or education were required to enter the new administration (being in opposition was the primary criteria for appointment, and lack of administrative experience came to be seen as a virtue), and careers usually progressed quickly for outsiders who, before 1989 did not have any contact with politics or administration (this meant that they were not exposed to the administrative practice of communist nomenklatura). Moreover, there were not any political and professional barriers for entering the administration, which could exclude certain groups (for example party membership only became a critical precondition later, during the post-communist and post-Solidarity tenure, i.e., since 1993). Finally, no clear procedures for divisions between political and administrative posts were developed, and in relation to ministers and voivodes, there was no spoils system, and a group of expert non-party members were often appointed.

Not all characteristics of personnel policy in administration were, however, ‘revolutionary’. During the start of the Mazowiecki government, the communist party (PZPR) and its political heirs controlled the army and the security forces. Geopolitical factors – the uncertainty over the acceptance of Soviet Union, for example – had to be taken into consideration, such that confrontation with them was dangerous. Communist party candidates would need to be ministers of internal affairs and defence (Dudek, 2002: 77). Mazowiecki, in his inauguration speech in the Parliament (the Sejm), noted that he had not planned to divide the past from the present with a “thick line” (gruba kreska), and instead, aimed to concentrate on the current economic situation.³ This phrase was often used as proof for criticising Mazowiecki for being over-cautious towards communism in

² Economic management was the exception, where the appointment of Balcerowicz as minister of finance and deputy prime minister led to radical and comprehensive economic reform.

³ Fear of nomenklatura opposition to the formation of a new government also drove the “thick line” policy. However, as Geremek and Żakowski (1990) recollect, the nomenklatura – who were accustomed to being subservient, accepted the new authority with their same subservience. The greatest stumbling block for efficient administrative performance was the inability to make decisions and the acceptance of responsibility for them (this was because, during socialism, decisions were taken by the communist party, not administrative institutions).
general, and towards personnel changes in particular, for not restricting access of the former nomenklatura (Dudek, 2002: 102-103).

Few military generals were changed and Mazowiecki refused to form a completely new intelligence service. Despite the cautious approach, Roszkowski (2001: 408-409) more optimistically focuses on Mazowiecki’s action to ‘end the police state’, following the passage of the law forbidding party membership in the army and police, and a gradualist approach to personnel changes, which was, according to him, necessary at that time. The most important personnel reshuffle took place in July 1990, when three post-communist ministers were dismissed.\(^4\) In other ministries, however, changes were very moderate and by December 1990, 18 out of 24 ministers had preserved their positions.\(^5\)

The changes in regional personnel policy, in the voivodships, was much more extensive, albeit more gradual. Until June 1990, only 23 out of 49 voivodes were newly appointed. By the time Mazowiecki left office, however, only four remained unchanged. The number of deputy voivodes decreased, from three to one in every region. As a result, 149 deputy voivodes were dismissed and only 43 were appointed. Those who came were mostly formally non-party members tied to Citizens Committees or members of Solidarity (Frydrykiewicz and Reszka, 1996).

Mazowiecki’s greatest achievement, though, was the establishment of local government. Given the predominance of sectoral interests in and among various ministries and weak government coherence, local government reform was introduced in 1990 in an attempt to partially modify the central administrative structure through the decentralisation of competencies to local administration (Regulski, 2000). Decentralisation aimed at adapting the state to its new democratic role and to improving its performance, however, the whole administration (local, regional and central) was required to break with the socialist legacy. The regional administration was supposed to be subsequently reformed through the merger of 49 weak voivodships [regions] into 12 regions, which would be able to take over the new competencies.\(^6\)

---

4 Kiszczak – the minister of internal affairs, Siwicki – the minister of defence and Wielądek – minister of transport and sea industry.

5 The most serious changes took place in the ministry of education (with five new deputy ministers), in the ministry of the environment (also five new deputy ministers) and in the finance ministry (three). These 38 new appointments were the result of only 25 dismissals, with 13 positions being newly established (Dudek, 2002: 101).

6 As a consequence of the round table agreement, the central level was considered to be the stronghold of communist power, and thus reform naturally started by decentralising power to local government, and replacing the existing local-level state administration with a self-governing one at the community level. A bottom-up approach was adopted, such that the next stages of reform were to be focused in the districts and the regions, with the central administration following last.
Jan Krzysztof Bielecki’s personnel policy limited politicisation, as independents had access to senior positions. Members of five coalition parties made up only 45% of the government, and 55% were ‘independent’. Such a high representation of independents also shows that new parties began to crystallise. His personnel policy also involved minimal changes (Chamj, 1988: 54-55). Bielecki’s government represented continuity in government and regional administration, as 8 out of 19 ministers came from Mazowiecki’s government, and only 12 new voivodes and 17 deputy voivodes were appointed (Frydrykiewicz and Reszka, 1996). In central government, the minister of industry, Żawiśłak, was replaced by Bochniarz, and the chairman of the Polish central Bank Wójtowicz was dismissed.

Smaller parties, excluding the largest parties of the Democratic Union (UD), formed the third post-Solidarity government under Prime Minister Olszewski. As a result, the minority government had to cope, throughout the whole period, with the challenges of enlarging the coalition. The temporary character of government also led to a lack of long-term policies. Its personnel policy included dismissals, not only for post-communists, but also for other members of the post-Solidarity camp, with the UD demanding the end of personnel changes for UD members in ministerial administrations as a precondition for talks to enlarge the coalition (Dudek 2002: 247). In his initial speech, Olszewski criticised not only the post-communists, but also two earlier post-Solidarity governments, and vowed to break with the policy of these governments.

Personnel changes also took place in regional administration. During a January 1992 meeting with the regional governors, the new director of the Office of Ministers Council, with responsibility for regional administration, Wojciech Włodarczyk, declared quite contradictorily that in his personnel appointments, “political sympathies will not be taken into consideration – but he added – the senior administrative officials cannot be completely apolitical, as each government has its own political base.” According to Lipszyc and Wielopolska (1993), this declaration led regional politicians of one of post-Solidarity party, the Central Union (PC), as well as other temporal regional post-Solidarity political coalitions to demand for voivode changes. Nevertheless, relatively few changes occurred (especially when compared with the spoils system introduced after 1993), as he dismissed only 8 voivodes and 6 deputy voivodes (Frydrykiewicz and Reszka, 1996).

The last of the early post-Solidarity governments – Suchocka’s government – demonstrated the high politicisation and fragmentation of the Solidarity camp, which also began to be seen in relation to voivode positions. After the collapse of Suchocka’s government, the prime minister declared that she hoped that over a (distant) period of time, the voivodes would be included in the category of apolitical civil servants. During her tenure (as well as those of other post-Solidarity governments), however, the position of voivode was highly politicised and several of them and their deputies stood in parliamentary elections (though none
were elected). Suchocka dismissed 8 voivodes, two voivodes of which were PC members of parliament who, together with the PC parliamentary club, voted against the government budget. This was seen, by Suchocka, as a ‘drastic infringement of voivodes’ duties’ (Frydrykiewicz and Reszka, 1996).

To sum up, in the first post-Solidarity period, the division of pool of spoils was not defined at either the central or the regional level. The positions of voivodes were interpreted as administrative although, in reality, they were sometimes politicised. There was only a gradual recognition of the need to develop a personnel policy as a means of preserving political power; at the beginning, personnel policy and management of administration were seen as of secondary importance, with the primary importance being economic and political transition.


The post-communists came to power on 19 September 1993 in early parliamentary elections resulting from post-Solidarity squabbling. The three succeeding governments were based on this coalition (post-communist the Democratic Left Alliance [SLD] and Peasant party [PSL]). This shift of power started the next stage of the administrative transition. This next stage was defined by the end of the revolutionary period of spontaneous government’s actions and the introduction of formal arrangements between coalition partners – as well as the establishment of a spoils system and the postponement of regional administration reform.

The coalition agreement in 1993 started the spoils system. It was decided that a representative of the Polish Peasant Party would become the prime minister. The spoils was to be applied only to some ministries (to which it was not defined in the document) and they declared that personnel changes would be minimised, and that an apolitical civil service would be established in the central administration.

Pawlak’s government vividly illustrates the introduction of a radical version of a spoils system (radical changes to the earlier attempts of Post-Solidarity’s government to limit political sphere). In the ministries, the new government dismissed 50 senior employees and during the first hundred days, 19 voivodes were dismissed (Koral, 1994). Minister Strąk, was responsible for regional administration and, in opposition to proposals that were evolving during the post-Solidarity

---

7 By that time, Bohadnowicz from Łódź was the longest tenured voivode (appointed by Mazowiecki in 1989) and three deputy voivodes had been appointed under socialism, one of them in 1984 (Lipszyc and Wielopolska, 1993).

8 The lack of developed personnel policy led Balcerowicz to recollect, after the post-Solidarity parties lost the 1993 parliamentary elections, that the creation of its own cadres made it important for parties conducting reforms to guarantee the continuation of reform.
period for the legislative regulation of voivodes’ positions, openly declared for the first time that voivodes’ positions were political, not administrative. He also radically changed the philosophy of relations between political and administrative spheres. For the first time, a significant rise in the numbers of political appointments was proposed. Extensive personnel changes would accompany each change of government, as voivodes, their deputies and other senior officials would be forced to automatically resign; this concept came into effect in 1997. Strąk used the French system to justify this policy, where, he claimed, about 60% of prefects are changed after each change of government. Such change also reflects the will of the voters who voted for the new government. In consequence, the regional administration were purged, with the dismissal of 32 voivodes out of 49, and with the dismissal of 34 deputy voivodes (Frydrykiewicz and Reszka, 1996).

Moreover, a new criteria for appointments, especially in central administration, was clientelism, which led appointments to be based on acquaintance with the prime minister (Groblewski and Lipszyc, 1994). Strąk openly declared “In reality, the former officials are returning. That is normal. During the past four years, the young angry men introduced reform, which could not be done without the former officials. Now they are returning to new structures and adjusting everything” (Dudek, 2002: 364).

Since the formation of Waldermar Pawlak’s government in 1993, there were attempts to monopolise governmental policy by the Peasant Party. This was also very evident in personnel policy. The division of the spoils system by the prime minister represented an attempt by one coalition member to take over most government positions. The PSL (Peasant Party) did not take into consideration electoral arithmetic in deciding on the division of posts. Prime Minister Pawlak, although a leader of the PSL, was the junior partner in the post-communist coalition, and nevertheless ensured that the PSL gained 19 voivode posts while only two went to supporters of the SLD. Such an uneven distribution of posts violated the earlier agreement dividing voivode positions within the coalition according to whether the PSL or the SLD dominated the parliamentary election in a particular voivodship. The most flagrant violation of the agreement occurred in the two voivodships of Wrocław and Katowice, where the SLD had twice as many votes as the PSL.

When the prime minister's post went to the post-communist SLD Oleksy, the purge went the other way after a half a year’s rule. Roughly 48 deputy ministers and

9 Despite the post-Solidarity elite’s internal fights, their positions were not widely seen as the “spoils of [electoral] victory”. The appointment of people from various political groups was possible, especially as they wished to break with the nomenklatura style of exclusively appointing communist party members. Yet, they tried to pay more attention to professional abilities and did not wish to exclude the opposition completely.

10 In the 1993 election, the PSL gained 29% compared with the SLD’s 37% (Dudek, 2002: 348).
director generals had been replaced, compared to an estimated 67 that were changed (out of 145 senior officials) during the year tenure of Pawlak (Henzler and Olszewska, 1995).\textsuperscript{11} Rydlewski (2001: 83-4) notes for the 1990s that the very high correlation between frequent government changes and the lack of stable administrative cadres was criticised by foreign experts, such as the European Commission, in November 1998.

The shift of power to post-communist government meant the end of post-Solidarity governments’ comprehensive vision of administrative reform, which was significantly curtailed, as it was limited only to central administration (although assisted by the introduction of the 1996 Civil Service Act). After the formation of Pawlak’s government, the whole set of parliamentary bills prepared by the Suchocka government, which were proposing systemic administrative reform, was rejected; the territorial reform of districts and regions was also abandoned.

During Prime Minister Pawlak’s tenure, work on civil service status began as a modification to the 1982 socialist bill on administrative employees instead of as a continuation of post-Solidarity projects (Izdebski 1996: 312-313). The continuation of work on the Civil Service Act resulted in the creation of the Civil Service Act on 5 July 1996, under Prime Minister Cimoszewicz (Izdebski and Kulesza 1999: 218). The Civil Service Act was part of central administration reform. This reform decreased the number of ministries, creating a much more coherent structure. The division of administrative and political position began to be much clearer, as separate administrative and political sections were created in ministries. The position of secretary and deputy secretary of state, secretaries and in regional administration, voivodes and deputy voivodes (around 200 officials) became defined as political officials who would automatically hand in their resignations with the collapse of a government, although the new prime minister would not have to accept their resignations. The director generals in ministries and in voivodship (regional) offices became the highest administrative positions, which were to remain unchanged irrespective of changes in government (Izdebski and Kulesza, 1999: 146). In addition, the constitution of 1997 forbade uniting the functions of Members of Parliament or senators with positions in public administration, except for ministers and deputy ministers which, since 1996, were defined as political rather than administrative (Rydlewski, 2000: 84).

The Polish Civil Service model (according to 1996 Act) was to be created evolutionarily, thus for the transitional period, would cover only some administrative employees (Kaźmierski, 1997).\textsuperscript{12} As a result, two categories were formed.

\textsuperscript{11} Among those changed were five voivodes and seven deputy voivodes (Frydrykiewicz and Reszka, 1996).

\textsuperscript{12} A selective definition for civil servants contrasted with the extensively defined French civil service (accounting for about 2.5 million officials from a variety of activities including policemen) and the British system (with its much smaller 600 thousand employees).
First, civil servants – ‘the elite’ – nominated by the chief of the civil service officials (after qualifying through the civil service commission). The second group, ‘the rest’ – were the public administration employees. Among the civil servants, there were four categories. The Act required seven years’ work experience in administration for the most senior positions, automatically excluding civil servants who had not worked in administration before the collapse of communism. In 1997, selection procedures for civil servants nearly completely excluded anyone who was not a supporter of the SLD or (to some extent) the PSL. Meanwhile, Miller, the minister of internal affairs and administration prior to the autumn election of 1997, appointed a whole new set of directors general (48 out of 49 regions) in June, whose position was defined to be formally administrative, and thus should be preserved after the change of government (Roszkowski, 2001: 436). Among the new director generals, 11 belonged to the PSL, 4 to the SLD and the rest were non-party members. Officially appointment to this position required political neutrality, requiring directors general to either decline the appointment or to renounce their party membership. Nevertheless, PSL politicians argued that the statistics were not reflective of political realities as current non-party members were all former senior communist apparatchiks and sympathisers of the SLD (Wróbel, 1997; Subotic, 1997). The PSL protested that these appointments were not apolitical but were, rather, spoils (Czaczkowska and Kieszkowski, 1997).

The central administration reform closed the fast-track advancement of graduates of the National School of Public Administration while enhancing the likelihood of the promotion of communist apparatchiks (Nunberg, 1999: 45; Dudek, 2002: 437).


The elections on 21 September 1997 led to the formation of Jerzy Buzek’s government under the umbrella of Solidarity Electoral Action (AWS), the loose bloc of post-Solidarity parties and the Freedom Union (UW). The composition of Buzek’s government demonstrates AWS’s strong position, as 72% of ministers were from this party. The electoral results were rather unfavourable for the UW who secured only one-third the number of seats as the AWS. Two deputy prime minister positions were aimed at weakening UW influence and the Freedom Union in the majority received only deputy-type positions, such as deputy prime ministers, deputy spokesmen of the Sejm, and Senat.

The expectation of possible conflict within the coalition led to a level of attention toward personnel policy in the coalition agreement, not seen since 1989. Despite the attempt to eliminate possible doubts over the division of spoils, this government was the least successful in its personnel policy, which was one seri-
ous co-factor in the break-up of the coalition government. Personnel policy assumed that such a division should reflect the will of the population, as measured by the number of votes cast for each of the coalition parties. According to the coalition agreement, the prime minister would be from the AWS, but must be accepted by the UW. The deputy prime minister would be from the UW, and would be accepted by the AWS. A detailed division of ministerial posts was also decided, and detailed regulations governed their appointment to the regional administration – the AWS proposed candidates for voivodes and the UW for their deputies (except in 12 out of 49 regions where UW voivodes were to be appointed with AWS deputies). Two candidatures were proposed for every position, with the prime minister making the final choice.

Buzek’s government engaged in territorial reform. On 1 January 1999, 49 weak voivodships were merged into 16 much stronger regions. Again, political bargaining between national and regional politicians of the AWS and UW determined the division of voivodes’ post and after reform, AWS predominance increased even further. The UW lost all sixteen first deputy voivodes positions, half (8) of the second deputy voivode positions, and the AWS took all the voivode positions (Rydlewki 2000: 55). Under Buzek’s government, the spoils system expanded. Its first decisions extensively replaced the cadres in central and regional administration, beginning with the replacement of the deputy ministers of foreign affairs, defence, internal affairs and administration, and the State Protection Office, and quickly spreading to all ministers, boards of state-owned companies and security forces (Roszkowski, 2001: 448; Dudek, 2002: 455-6). As Dudek comments, a tendency to extreme politicisation of appointments appeared in Poland, seemingly mirroring the socialist nomenklatura system, under which appointments required political approval.

During AWS’s electoral campaign, Kaczyński referred to the coexistence within AWS of the political grouping of contradictory political aims – starting with conservative liberals and ending with radical trade unionists – but standing in election together for pragmatic reasons. “Now it is f****** time for us to come to power” became the vulgar yet popular phrase (Mikołajczyk, 2002: 305). Krzaklewski (1997) openly declared that ‘the cancerous communist tissue’ has to be cut out – through the capture of about 200 senior administrative positions for the AWS. In consequence, long-term trade union activists took over the senior

13 The junior coalition partner, the Freedom Union, used the reform of regional administration to propose the formation of a “corps of voivodes” which would represent the prime minister instead of regional interests (which depend on regional MPs and over-concentration on regional interests rather than coherent government policy). However, this proposal met strong resistance from the AWS, the senior coalition partner.
Politico-Administrative Relations in the Polish Regions

positions in state institutions, partly due to the pressure of its echelons, but also due to the lack of its own qualified and trustworthy cadres.¹⁴

Buzek’s government personnel policy has also to be analysed at the level below political appointees (presented above) in relation to civil service. In this area, two trends are observable, first, rejection of the personnel policy of its predecessors, due to the fact that one of Buzek’s first decisions was to waive the examination requirements for civil servants. In 1997, out of 105,000 administrative employees, only one hundred of them passed the examination and received a civil servant nomination (Wróbel, 1999).

Second, in the long term they were advocates of the professional and stable civil service. On 18 December 1998, the new Civil Service Act replaced the 5 July 1996 post-communist act, which the new coalition saw as highly politicised. The act requires a Masters Degree, the knowledge foreign language,¹⁵ an administrative apprenticeship for new recruits, (with the exception of graduates of the National School of Public Administration, who are exempt (at that time about 350 graduates)). The act established nine grades of civil servants and, after nomination, the highest grade is awarded. Applicants for nomination must be employees with two years’ apprenticeship, a master’s degree, knowledge of at least one foreign language, and must have passed examinations conducted by the chairman of the Civil Service.¹⁶ Separate regulations apply to about 2,500 senior (managerial) civil servants positions, which are defined in the Act as chairman of Chancellery of Prime Minister, directors of departments and their deputies in ministries and central offices, directors of departments and their deputies in regional offices. Appointment to these positions are made by the prime minister as a result of a competitive procedure, after the recommendation of the chief of the Civil Service and after consultation with the relevant minister or director of the central office or voivode (Leoński, 2000: 220).

---

¹⁴ One appointee became Alot, director of the pension scheme office, ‘The Office of Social Security’ (ZUS); after a media campaign, he was dismissed. The last month of the AWS minority government showed the full scale of AWS’s incompetence and corruption, with the minister of sport, Dębski, being killed in mafia related business, and Wieczerska, chairman of the State Insurance Office (PZU) Życie arrested on corruption charges (Dudek, 2002: 464 –465 and 496).

¹⁵ The foreign language requirement substantially limits the potential applicant pool to about 10,000 (Wróbel, 1999). This requirement is important, however, as it shows the high standards introduced in this Act.

¹⁶ Those who passed the 1996 examination and received their nominations would not have to re qualify (115 civil servants), but would receive the lowest administrative grade (Rydlewki, 2001: 36). Those wanting senior (managerial) positions would have to retake the new, more stringent, exams (Wróbel, 1998). Those who passed the examination but did not receive a nomination (due to the change of government) had to reapply, automatically eliminating some of the previous candidates (Wróbel, 1999).
For all its shortcomings, the 1998 Civil Service Act created the basis for the formation of a professional and apolitical civil service through the introduction of competitive procedures for selecting the best candidates, which would leave civil servants independent of politicians. The Act generally received the full support of this government in the long-term, even if it was undermined in the short-term, for example through the appointment of directors general in the Office of European Integration and the Committee of Scientific Research, without going through the competition procedures required by the Act (Burnetko, 2002: 34-35). Yet, according to the European Commission (2000), the slow pace of civil service recruitment was emphasised, while exposing it in the meantime to political pressure. There were doubts as to whether, in the medium term, the introduction of the Civil Service Act would be efficient enough to guarantee their apolitical character and the stability of nominations. Qualification procedures take place only once a year and out of the 240 administrative employees who volunteered to take the examination, only 42 passed.\(^\text{17}\) The Commission also recommended a substantial salary increase for senior civil servants, to provide incentives for the development of the civil service cadres.

Finally, the distinction between political and administrative positions was not respected, causing a decline in government performance (Rydlewski, 2002: 101-102). Buzek’s appointment of an ambitious AWS politician to the administrative position of the chairman of Chancellery of Prime Minister resulted in the politician conducting his own policies, instead of those of the prime minister and government.

**Miller’s Government and the Politicisation of Civil Service (2001 to 2003)**

After the autumn 2001 parliamentary election, the ninth coalition government of Leszek Miller was formed. The post-communist SLD\(^\text{18}\) and Peasant Party (PSL) remained in the coalition until 1 March 2003, when after the collapse of the coalition, Miller’s government became a minority government. The SLD heavily dominated the composition of this government and Kalinowski (chairman of

\(^\text{17}\) Naturally, the slow pace of formation of civil service was result of delays from the beginning of transition. The reference to EU standards was also quoted here to show the importance of external factors in the development of the civil service in Poland. In contrast to other administrative reforms, for example local government and regional administration, when there were strong internal motivations, it seems not to be the case with Civil Service Acts as politicians have difficulty letting go of their ‘unlimited’ control.

\(^\text{18}\) The third coalition partner was tiny Labour Union (UP), it has only 16 MPs, and the most prominent position this party took was position of deputy prime minister taken by chairman of the party Marek Pol. The UP has only four deputy voivodes’ positions (Henzler Polityka 19 January 2002)
the PSL) became minister of agriculture in charge of Polish negotiations with the EU over agriculture. In addition to two ministers, the PSL also had 10 deputy secretaries of state and 11 deputy voivodes (even less than the UW in the previous coalition, which had deputy voivodes in each of the 16 regions). Bentkowski chaired the powerful agency for the restructuring and modernisation of agriculture, and Pietrewicz chaired the government centre of strategic studies (Gajewski and Siennicki, 2002). The composition of this government with the small number of PSL ministries and their rather limited influence in administration also shows how the position of the PSL has changed over time since 1993 when, despite the fact that it was the junior coalition partner, it took the position of prime minister, with Pawlak.

Leszek Miller’s government has generally acted according to a clearly defined division of political and administrative spheres – which should guarantee the apolitical character of the civil service. Yet, as with the Buzek government, limited acceptance remains on the limits of the political sphere, and the recognition of stable administrative sections (civil service). For example, the Minister of Treasury Kaczmarek, personally chose the director general of his ministry, despite the administrative nature of the post under the Civil Service Act. The Buzek and Miller governments have also ignored the Civil Service Act of 1996 and the later 1998 Act by employing people in managerial positions through omitting competitive procedures.

The addition of article 144a to the Civil Service Act in December 2001 has also become a popular loophole allowing for the temporary omission of competition procedures. Another method for preserving political control has been the administrative reorganisation of ministries accompanied by personnel changes. Such personnel changes were introduced at the regional level by the Minister of Internal Affairs and Administration, Krzysztof Janik, who conducted purges of directors generals of regional offices and directors of departments in the regional administration under the guise of creating uniformity of administrative structures (Henzler, 2002).

The borderline between political and administrative spheres is currently under political pressure to expand its influence over the administrative sphere formally defined as politically neutral. The concept of the civil service is not questioned as such, but Miller’s government tries to delay its progress. In the Chancellery of prime minister, in only 3 of 22 positions of directors were the procedures not omitted (which can be a criterion of politicisation); in the Ministry of Internal Affairs and Administration (which should be a model institution), 10 out of 17 directors were employed with so called “in proxy status”, which allows the omission of the standard competitive procedure adhered to it (Burnetko, 2002).
Conclusion

The increasing adoption of an extensive spoils system poses an obstacle to the formation of professional and efficient regional public administration. Voivodes are not the prime minister’s representatives in the regions, but are dependent on the coalition partners at the regional level who select them. The civil service at both central and regional levels is still inchoate – weak and vulnerable to attack by politicians wishing to extend their control of personnel policy into the public administration. Jan Pastwa, the chairman of the civil service, argues that politicians (both post-Solidarity and post-communists) found it difficult to accept the Civil Service Act in 1996 (and latter in 1998). In the 1990s, each party tried to replace the communist mono-nomenklatura with its own party nomenklatura. Nevertheless, popular support for an independent civil service should increase as the rising qualifications, training and administrative experience of post-holders guarantees more effective government policy. The politicisation of the civil service will probably continue for quite some time, until the strength of the civil service passes a “tipping point” related to a certain number of professional civil servants. A radical overhaul of the civil service aimed at limiting politicisation of administration could, however, be caused by strong internal or external pressure (such as pressure from the EU).

Bibliography


Gawryś Filip and Zdort Dominik Człowiek premiera czy loklnych układów (Voivode – a representative of prime minister or political regional interest) Rzeczpospolita 1 Dec 1998.

Gazeta Prawna 29 of July 2002.


Grosse Tomasz Grzegorz, Służba cywilna w Polsce i możliwości jej rozwoju (Civil service in Poland an opportunities for its developement) Służba cywilna, Spring-Summer 2001, no2.


Izdebski, Hubert, Historia administracji, (History of administration), Liber, Warszawa, 1996.


Karpiński J., Trzecia niepodległość, najnowsza historia Polski, (The third independence, the modern history of Poland), Świat Książki, Grupa wydawnicza Bertelsmann Media, Warszawa, 2001.

Kaźmierski Jarsław ‘Nie wystarczy ładnie nazywać’ (It is not enough to have a nice name of civil servise) Rzeczpospolita 16 Oct. 1997.


Lipszyc Jan Bazyl and Wielopolska Anna ‘Wojewoda – fachowiec lub baza polityczna’ (Voivode – apolitical profesional or the political networking), Rzeczpospolita 16 October 1993.

Section III  Changing Relationship between the Nation and the Region


Paradowska J., Rząd przedwyborczy, co minister to inny komitet (Pre-election government, every minister In diff rent pre-election coalition), Polityka 9 June 2001.


Polska 2000, Okresowy Raport Komisji Europejskiej z postępów Polski na drodze do członkostwa w UE, 8 listopada 2000 (Poland 2000, Regular report from the Commission on Poland’s progress towards accession. 2000) http:
Politico-Administrative Relations in the Polish Regions

Potkaj Tomasz ‘Polityczni i cywile’ (Political appointment verus civil servise) Tygodnik powszechny, 6 January 2002.


Rydelewski G., Rządzenie koalicjne w Polsce, (Bilans doświadczeń lat dziewięćdziesiątych), (The coalition governments ruling in Poland [a summary of the expirences of the ninties] Instytut Nauk Politycznych, Uniwersytetu Warszawskiego, Warszawa, 2000.


Subotić Małgorzata, ‘Rząd i premier na cztery lata’, (Government and prime minister for four years), Rzeczpospolita, 4-5 May 2002.

Urzędnik jak trawa – z dr Marią Ginwont-Jankowicz, dyrektorem Krajowej Szkoły Administracji Publicznej rozmawiają Witold Bereś i Krzysztof Burnetko, (On administration, an interview with dr Maria Ginwont-Jankowicz, Director of


Wróbel Renata ‘Nadzieja w konkursach’ (The hope in the competition [for civil service positions]) *Rzeczpospolita* 26 March 1998.

Wróbel Renata ‘Swoi i dobrzy, rozmowa z Janem Pastwą, szefem służby cywilnej’ (Our people and well-prepared in administration, the conversation with Janem Pastwą, the chairmand of civil servise) *Rzeczpospolita* 1 July 1999.

Crimean Tatar Legislative Representation in the Context of 2002 Ukrainian Elections

Rustem Ablyatifov

The Crimean Tatars represent an important ethnic group in the Crimea region of Ukraine. They have, however, been unsatisfactorily incorporated into the political life of the region. In the legislative elections of 2002, the Crimean Tatars made significant gains in their representation in legislative bodies. Such representation, however, remains hampered by problems with the Ukrainian political system, which proportional representation and a quota of Crimean Tatar representatives could help overcome.

Historical Background

From the 15th until the 18th century, the Crimean Tatars had their own state – Crimean Khanate. The Russian empire annexed the Crimea in 1793. As a result of Russia's colonial policy, the native population fell from 98% to 20% by 1939 due to war, the deprivation of land, forced emigration overseas, and repression due to Soviet agricultural collectivization. The Soviets came to power in the Crimea in 1921, with the creation of the Crimean Autonomous Soviet Socialist Republic. Such autonomy had limited power, but it did have a unique ethnic and territorial character. In 1921, the concept of “korenizatsiya” or “strengthening of roots” was used as a way to solve the ethnic issue by creating ethnic and territorial entities of different levels. The USSR allowed the use of native languages and the expression of local culture as well as the representation of ethnic representatives in public decision-making bodies. Korenizatsiya was also carried out in the Crimea and the Crimean Tatar language was recognized as an official language together with the Russian language. Crimean Tatar national symbols were also used in State matters. The principle of ethnicity was also used to establish administrative divisions. Fifteen rayons (or localities) of the Crimea were established in 1921, consisting

1 The author would like to express his appreciation to Refat Chubarov, Albert Kangiev, Olga Vlasenko, Yulia Berezutskaya, and Ayder Ibragimov for their assistance.
of 145 Crimean Tatar rural districts; 5 Crimean Tatar rayons were created in the years up to 1930 along with 102 Russian, 29 German, 7 Bulgarian, 5 Greek, 1 Armenian, 1 Estonian and 54 mixed rural districts.

In 1944, the Crimean Tatars were accused of having collaborated with Nazi Germany, and were forcibly deported to Central Asia and Siberia. Two years of illnesses, starvation, and slave labour had resulted in the deaths of more than 46% of the deported Crimean Tatars. The new settlers moving to the peninsula were mostly ethnic Russians. As the Crimean Tatars were deported, ethic autonomy was no longer necessary and the Crimea was turned into an ordinary oblast (region) in 1946. In 1954, the Crimean oblast was officially transferred from Russia to the Ukrainian Soviet Republic. The mass return of the Crimean Tatar people to their homeland became possible from the late 1980s during the period of liberalization of the Soviet political regime.

The collapse of the USSR and establishment of independent states had a huge impact on the process of return and settlement of the Crimean Tatars. The independent Ukraine unambiguously supported the return of the deported Crimean Tatars and other peoples to their historic homeland. Such support has not only reduced the likelihood of conflict between the returning Crimean Tatar people and the State, but has also increased popular support for the idea of an independent Ukrainian state. The Autonomous Republic of Crimea was created as part of Ukraine in 1991 in response to the demands of the Crimean Tatars returning to their historical Motherland. However, de facto autonomy was only created to Russian speakers and the interests of the Crimean Tatars were ignored. The problem faced by the approximately 270,000 strong Crimean Tatar community were, and still are, complex and multi-faceted encompassing social, economic, cultural, political and legal issues. Economically, the Crimean Tatars are destitute even by Crimean economic standards. Up to an estimated 60% of Crimean Tatars are unemployed (at least double the rate for the Crimea as a whole) and around 50% lack proper housing. Of the 291 Crimean Tatar settlements, about 25% do not have electricity, 70% are without water, 90% are without tarmac roads, 96% are without gas, and none have sewers. Since the USSR fell apart, the Ukraine has been the only Commonwealth of Independent States (CIS) country to bear the costs of Crimean Tatar resettlement, even though the 1992 CIS agreement “On Questions of the Restoration of Rights of Deported Individuals, National Minorities and People”, signed on 9 October 1992 in Bishkek (Kyrgyz Republic) stipulated that participant countries should share the cost of Crimean Tatar resettlement to the Crimea.

There are a number of political and legal problems associated with the Crimean Tatar return to Ukraine. Among the political and legal problems most often stressed by the Crimean Tatar leaders are the need for a legal mechanism to guarantee Crimean Tatar representation in Crimean and Ukrainian
government bodies, official recognition of the Crimean Tatar Mejlis (elected bodies); official recognition of Crimean Tatars as an indigenous people rather than a national minority; Ukrainian citizenship for all repatriated Crimean Tatars, and the recognition of the Crimean Tatar language an official languages in the Crimea.

In 2000, the recommendations of the parliamentary hearings on “The Legislation and Execution of a State policy for Promoting the Rights for Crimean Tatar People and national minorities who were deported and have voluntarily returned to Ukraine” were approved by Decree of the Verkhovna Rada on 20 April. The recommendation particularly noted that, “in the society as a whole and in its social and political units, a deep understanding of [importance of resettlement] has not yet been reached.... The lack of a comprehensive State policy for the restoration of formerly deported Crimean Tatar People and national minority rights...has led to a distrust of governmental bodies and to the increased social, economic, and political tension in certain regions and in the country as a whole. The parliamentary hearings evidenced that the issue of the Crimean Tatar is one of the most acute problems that requires an immediate solution.”

Recent Problems of Crimean Tatar Representation in the Crimean Government

Crimea’s most acute problem is the integration of the Crimean Tatar people into Ukraine’s public and political life. At present, there is not a single legislative act concerning the rights of the Crimean Tatar people. The current normative base covering the rights of the Tartars consists of several Presidential Decrees, governmental resolutions, and one parliamentary resolution.

Ukraine’s Verkhovna Rada (National Legislature) adopted the Autonomous Republic of the Crimea’s new Constitution in December 1998. The Leaders of the Crimean Tatar people have strongly criticized this Constitution as it has barred Crimean Tatars from public and political life. The Constitution does not recognize the Crimean Tatars, Karaites and Krymchaks as the indigenous peoples of the Crimea, nor does it recognise the authority of the Kurultay (National Assembly) and the Mejlis as the elected representative bodies of the Crimean Tatar people, nor does it ensure Crimean Tatar representation in the Crimean government (Crimean Tatar representation quotas were cancelled in 1998).

Crimean Tatar leaders most emphasise the under-representation of the Crimean Tatars in Crimean governmental bodies. Despite Crimean Tartars constituting 12% of Crimea’s population, after March 1998 elections, the Crimean Tatars did not have one representative in the Crimean parliament (the only Crimean Tatar in the 96-member parliament was elected on the Communist
Party ticket and is not considered by the Crimean Tatars as their representative).\textsuperscript{2} Crimean Tatars also constitute only 1% of employees in the Crimea's government bodies, with only 0.1% in the police and the security forces. In village and town councils, on average, Crimean Tatars accounted for 9% of all deputies elected, and only in the lowest level – in village councils – was Crimean Tatar representation approximately proportionate to their share in the population (11.8%).

Lack of Crimean Tatar representation led to explicit conflict. The quota’s abolition moved the Crimean Tatar’s political expression for government meeting halls to the streets. A number of unauthorized meetings were held in 1999-2000 and district state administrations, courts, traffic, railroads, and other services were blocked several times. During clashes, several militiamen were hospitalised. In a statement issued by Crimean Tatar leaders, they stressed: “we are pushed toward methods...to public disobedience and fervent opposition to the authorities”.

The abolition of the legislative quota of Crimean Tatar representation has been criticized by the international observers, but to little avail. The OSCE Office for Democratic Institutions and Human Rights recommended that “the electoral system for the Parliament of Crimea should give better opportunities for the Tatars to be represented...by introducing proportionality to the electoral system.” The OSCE High Commissioner on national minorities has emphasized for many years the importance of a quota system or other mechanism to guarantee Tatar “representation broadly commensurate to their percentage of the total population of the Crimea.” Domestic opposition to a quota arrangement or other institutional mechanism to enable the Tatars guaranteed representation in the Crimean parliament is strong, particularly among the Crimean leadership and leftist groups in the Ukrainian Parliament – non-leftist political forces are also cautious of such proposals.

The Legal and Political Aspects of 2000 Crimean Elections

The Crimean Tatar political demands for greater group rights have fallen on virtually deaf ears in the Crimea. Officially, these demands are commonly rebutted with the rhetoric of “equal rights for all residents of a multiethnic Crimea”. The negative attitude of Crimea’s dominant elites toward the Crimean Tatars’ political demands stems from sharp political and ideological differences between the two groups, intensified by centuries old Slavic/Muslim stereotypes and mutual mis-

\textsuperscript{2} From 1994 to 1998, the Crimean Tatars had a quota of 14 seats of Crimea’s 98 legislative seats. The Tartar quota was a temporary measure lasting one electoral period and was abolished before the March 1998 parliamentary elections in order to establish a majority “one person, one vote” system. The majority rule system excluded the Crimean Tatars, who were scattered throughout the Crimea and thus did not form a majority in any electoral district.
trust between Crimean Tatars and Crimea's Russified Ukrainian majority. AntiTatar prejudice is still widespread among both the population and elites, and some members of the Crimean parliament openly voice their opinion that “Tatars are good for nothing other than trading at the market”. A Communist MP in the Ukrainian parliament recently questioned whether the 1944 en masse deportation of the Crimean Tatars – “the collaborators with the invaders” – should be condemned. Hostile rhetoric and the refusal to address Crimean Tatar political demands have prompted the Crimean Tatars to spare no harsh language towards their political opponents. The Crimean Tatar leaders have called Crimea's Russians “colonists,” and Crimea's leadership “a branch of the Moscow Politburo” attempting to “restore a criminal Communist regime on the peninsula and completely wipe the Crimean Tatar people from the face of the Earth”. An illustration of such acute antagonism is seen by the exchanges between Mustafa Djemilev who is a member of parliament and Chairman of Mejlis of Crimean Tatar people and Leonid Hrach who is the Chair of the Verkhovna Rada, during the session of the Committee on Migration, Refugees and Demography.

During a session of the Committee on April 5, 2000, Mustafa Jemilev noted “Acute problems related to the Crimean Tatar representation in government bodies as well as the legalization of our traditional representative body – the Mejlis – could eventually be resolved through legislation. Restoring the right of the indigenous population to participate in the decision-making process where it concerns its own affairs complies fully with those international norms and standards designed to protect human rights”. Leonid Hrach replied “the Crimean Tatars…cannot compete equally with other nationality groups for jobs....limited resources create the risk of confrontation and increasing ethno-political tension, first of all, between the non-legitimate Mejlis and executive bodies. The Mejlis’ leaders use the high potential for Crimean Tatar opposition the insufficient involvement of repatriates in state construction to act outside of Ukraine's laws. Last month the Mejlis again encouraged destructive opposition by one-sided demands and threatening civil disobedience”.

In 2000, Recommendation 1455 on the Repatriation and Integration of the Crimean Tatars invite the Ukrainian Government and Crimea's regional authorities to study the experience of other Council of Europe member states concerning the minority and indigenous peoples' representation, with a view to securing effective Tartar representation in national, Crimean and local public affairs. The Recommendation also encourages the Ukrainian government to take into account the Council of Europe's 1995 Framework Convention for the Protection of National Minorities. In June 1999, the Lund Recommendations on the Effective Participation of National Minorities in Public Life (elaborated at the request of the OSCE’s High Commissioner for National Minorities) resulted from discussions at a session of the Committee on Migration, Refugees and Demography.
The lack of dialogue between Ukraine’s leadership, the Crimean authorities and Crimean Tatars during the early years of the Crimean Tatar return to the Crimea has prevented a solution to the Crimean Tatar problem. Such a dialogue should take place on all levels – at the most senior levels with the participation of Ukraine’s President, the Verkhovna Rada and the Council of Ministers of Crimea and at the local level involving local councils, state administrations and self-governing bodies. Crimean Tatar local government representation would provide this dialogue at the local level.

**Influences on the 2002 Election**

The elections for Verkhovna Rada’s deputies and local Crimean self-governing bodies were held on the same day as elections for Ukrainian parliamentarian deputies – 31st March 2002. In the 2002 Crimean elections, the intensity with which deputies to the Crimean Verkhovna Rada fought was no less than that seen at the national level. The intensity of the elections was prompted by the refusal of the majority of the Crimea’s political elite (independently of their party membership) to adopt the authoritarian style of the leaders of Crimea’s Verkhovna Rada from 1998 to 2002. By nature an extremely ambitious politician, Leonid Hrach directed all his efforts towards the strengthening of his personal power.

The style of government that was established soon after he came to power in the Crimea was typical of Hrach since the time when he was a first secretary of the Crimean Oblast Committee of the Soviet Communist Party. Hrach resurrected, in Crimean political life, the practice of playing different national and religious factions against one another. Attempting to conceal his own inability to solve the republic’s socio-economic problems, as leader of both the Crimean Communists and as chairman of the local Verkhovna Rada, he tried to hide behind large-scale discourse and faux-scientific discourse on the Crimea’s special geopolitical role in the political union of Ukraine with Russia and Byelorussia. Hrach also began to establish ties with Russian regions through a personal friendship with the governor of the Krasnodarsk region, Nikolay Kondratenko who was famous for “ethnical and racial cleaning” of his region.

The results of all the opinion polls held in the Crimea on the eve of elections were extremely distressing for local communists and their leader. Trying to avoid an inevitable defeat, Hrach announced that his party’s candidates would be portrayed as members of Ukraine’s Communist Party of Ukraine (CPU) and for non-party persons, as “authoritative” candidates. Thus, the so-called “Crimean bloc of Hrach” was formed *ad hoc*. Nevertheless, its members were approved at a conference of the Crimean CPU. The main opponents of “Hrach’s Crimean bloc” turned out to be deputy candidates to the Crimean Verkhovna Rada united under Sergey Kunitsin.
Hrach and Kunitsin, realizing a strength of the Crimean Tatar electorate (more 12%), surprisingly included in the candidate lists Crimean Tatar representatives. Hrach announced that the five Crimean Tatar representatives in his candidate list were proportionate to the ethnical composition of the Crimea. However, not only were these five candidates not proportionate to the population, he also selected only Crimean Tatars opponents of the Crimean Tatar Mejlis – and a few days after the publication of the Hrach’s Crimean bloc’s party list, Edip Hafarov, the member of the Council of Ministers of ARC, publicly announced his withdrawal.

Only one Crimean Tatar candidate was included in Kunitsin party list in accordance with an agreement by the Mejlis to support Kunitsin’s candidates nominated by the Crimean Kurultay in districts, where these candidates had a chance of being elected. In districts where Kunitsin’s candidates would not be elected, the local Mejlis would also support non-Hrach candidates. While such support constituted only a form of “moral support”, in modern Crimean society, the voter often defines his position according to the famous saying: “Tell me, who is your friend”.

The Kurultay traditionally co-ordinates candidate nominations. In a session on November 9, 2001, the delegates of the Crimean Tatar National Congress approved a candidate list for Crimean Verkhovna Rada elections in more than 50 districts, including in 6 single member constituencies for the election of Ukrainian deputies. Despite their list, a majority of proposed candidates had already been at regional Mejlises, and the decision about each candidate was made by separate voting by Kurultay delegates. Only three candidates were not supported by the Kurultay and thus were registered as candidates in the Crimean Verkhovna Rada elections. Another group of Crimean Tatar representatives who had not decided to submit their candidacy for preliminary consideration by the Kurultay, also later decided to take part in the elections. Figure 1 shows the composition of Crimean Tatar candidates to the Verkhovna Rada on the eve of 31st March. Competition between Crimean Tatars was not avoided – yet the Kurultay’s coordination helped to minimize the splitting of votes between the Crimean Tatar candidates in the most promising districts.
Section III  Changing Relationship between the Nation and the Region

Figure 1
Tartar Representatives Running for Crimean Parliamentary Election in 2002

- No Crimean Tatar representative
- One nominated Crimean Tatar candidate
- Two nominated Crimean Tatar candidates
- More than two nominated Crimean Tatar candidates

Figure 2
National Composition of Verkhovna Rada

- Russians: 42
- Ukrainians: 35
- Jews: 4
- Caucasians: 2
- Abkhazians: 1
- Armenians: 1
- Greeks: 1
- Czechs: 1
Seven Crimean Tatar representatives were elected and one candidate of CPU, a Crimean Tatar by ethnic origin, was elected as a deputy of the Crimean Verkhovna Rada. In electoral district #62, Resul Velilyayev was elected as a deputy despite the decision of the Kurultay to support Rustem Bayram. This is the only case in which voters did not follow the recommendations of the Kurultay, because the Kurultay did not take into account the fact that the popularity of Resul Velilyayev among the Crimean Tatars was significantly higher than that of Rustem Bayram. On 15th April 2002, the newly elected Crimean Verkhovna Rada consisted of 46 members without party affiliation, 15 members of the CPU, 8 members of National-Democratic Party, 3 Social-Democrats, and 3 representatives of the Russian Party.

**Local Self-Governing Body Electoral Results: 31st March 2002**

From the Crimean Tatars’ point of view, the 31 March 2002 election results in local self-governing bodies were better than those of the Crimean Verkhovna Rada. On 15 April 2002, 6614 people were elected as Crimean local council deputies – including 922 Crimean Tatars (14%) –of which 63 (5%) were in cities and town of republican jurisdiction and 839 (16%) were in rural areas. Figure 3 presents a list of councils where there no Tartar representatives were elected –none were elected in 31 rural councils out of 243 (13%).

**Figure 3**

List of Councils where no Crimean Tatar Representatives Were Elected

<table>
<thead>
<tr>
<th>Cities and towns’ councils:</th>
<th>Alushta, Dzhankoy and Kerch</th>
</tr>
</thead>
<tbody>
<tr>
<td>District Councils:</td>
<td>Central district council of Simferopol;</td>
</tr>
<tr>
<td>Settlement Councils:</td>
<td>Partenit (Alushta), Zaozerne, Novoozerne, Mirne (Yevpatoria), GRES (Simferopol), Noviy Svit (Sudak), Koktebel and Ordzhonikidzevo (Feodosia), Gaspra, Gurzuf, Simeiz, Foros (Yalta)</td>
</tr>
</tbody>
</table>

Figure 4 shows many of the self-governing bodies where Crimean Tatars were elected. Crimean Tatar deputies took several important posts at the local level, including the Deputy Chairmanship of the Crimean Verkhovna Rada, Deputy Head of Permanent Commission of Interethnic Relations and Issues of Formerly Deported Citizens, Vice-prime-minister of Humanitarian Issues of the Government of the Crimea, Secretary of Permanent Commission of Agricultural and Landed Issues, Ecology and Nature Resources Conservation. In Sevastopol,
where anti-Tatar stereotypes are strongest, for the first time a Crimean Tatar took up the post of Deputy Head of State District administration.

**Figure 4**

Tartar Elections to Local Self-Governing Bodies

<table>
<thead>
<tr>
<th>Rayon Councils</th>
<th>City and Town Councils</th>
</tr>
</thead>
<tbody>
<tr>
<td>Belogirsk</td>
<td>Sudak town council</td>
</tr>
<tr>
<td>Kirovskie</td>
<td>Saki town council</td>
</tr>
<tr>
<td>Sovetskyi</td>
<td>Simferopol city council</td>
</tr>
<tr>
<td>Krasnogvardeyske</td>
<td>18%</td>
</tr>
<tr>
<td>Pervomayske</td>
<td></td>
</tr>
<tr>
<td>Chernomorske</td>
<td>Zheleznodorozhne of Bakhchisaray rayon</td>
</tr>
<tr>
<td>Lenino</td>
<td>Zemlyanichne of Belogorsk rayon</td>
</tr>
<tr>
<td>Saki</td>
<td>Mirne of Dzhanskoy rayon</td>
</tr>
<tr>
<td>Simferopol</td>
<td>Zolote Pole of Kirovske rayon</td>
</tr>
<tr>
<td></td>
<td>Sary Bash of Pervomayske rayon</td>
</tr>
<tr>
<td>Settlement Councils</td>
<td></td>
</tr>
<tr>
<td>Krasnogvardeyske rayon</td>
<td>28%</td>
</tr>
</tbody>
</table>

For the first time in sevastopol public life, 10 Crimean Tatars were elected as deputies to districts, villages and town councils of city’s jurisdiction.

**Crimean Tatar Representation of the Crimean Tatars After the 2002 Elections of 2002**

The success of Crimean Tatar representatives in the local self-government elections of March 2002 is attributable to a number of factors. First, the number of Crimean Tatars voters has increased significantly since 1998. Such an increase, of more than 60,000 people, became possible due to adoption of the new Ukrainian citizenship law, which brought many formerly deported persons and their descendants from Uzbekistan. Second, increased awareness among the population, including the Crimean Tatars, of the importance of personal participation in forming of electoral bodies of government augmented the number of electoral candidates. The Crimean Mejlis paid particular attention to this increased awareness. Third, the Crimean Mejlis successfully organised a campaign to increase the nomination of its candidates and prevent vote splitting among Crimean Tatar candidates. Fourth, there was increased popular participation in local and regional mejlises on issues related to land, social, political and economical stability, religious tolerance, and linguistic and cultural diversity. While the Crimean Tatar National Movement had sought to promote these factors, they came to the fore in the 2002 elections. While the non-Tatar electorate probably did not vote for Crimean Tatar candidates, the increased awareness mentioned above possibly
militated against the creation of issues by Crimean Tatar party political opponents which would have divided the Crimean Tatars from the rest of the Crimean population – especially opposition led by “Hrach’s Crimean faction”. Indeed, conflicts between the Crimean communists and their political opponents sometimes turned sometimes into large political scandals, involving the use of “discrediting documents” in particular, by Hrach and his supporters, significantly reduced the appeal of those who were against increased Crimean Tatar representation in governmental bodies. Hrach inadvertently reduced the credibility of previously trumpeted “terrifying stories” about the “Crimean Tatar threat” as these politicians reduced the credibility of these stories by discrediting themselves during the electoral campaign.

The Crimean political elite did not expect the increased representation of Crimean Tatars. The opponents of the quota system – guaranteeing Crimean Tatar representation in the Verkhovna Rada and in local self-government promptly issued statements noting that Crimean Tatar representation is possible without a quota system. The results of the last election confirmed that when the Crimean Tatar electorate (being an incomparably quantitative minority) will not be overwhelmed by the greater number of non-Crimean Tatar votes – the Crimean Tatars have the real opportunity not only to take part in elections, but also, to a certain extent, to influence their results.

Despite these election results, Crimean Tatar representation in government bodies still represents a problem for the Crimean Tatars. Crimean Tatar representation quotas and other mechanisms which guarantee some degree of Crimean Tatar participation in government will remain on the agenda until Crimean Tatar living standards correspond with the average Ukrainian citizen. The new election law should promote Crimean Tatar representation in government, following models of such inclusion from other countries. There are two options for such rectification. First, Crimean Tatars should be given temporary preferences (rectifying the deleterious effects of Stalinist deportation) until the Crimean Tatars’ living standards are equal with the general Ukrainian population. Second, the Crimean Tatars could be classified as an minority (namely indigenous) people – a nation with a state. Representatives of indigenous people should get guaranteed rights to participate in institutionalised decision-making processes. The second approach is practiced in many other countries, in particular in Central and Eastern Europe, and this tendency is gaining strength. Such representation has been shown to considerably decrease the potential of ethnic conflict.

However, the establishment of ethnic-based representation quotas presents several potential problems. The separation of candidates by ethnic origin could increase conflict as these ethnic groups strive for autonomy. Crimean Tatar quotas in the Verkhovna Rada and another local bodies will be difficult to establish through the establishment of ethnic and territorial election districts, as
the Crimean Tatars are spread out across the Crimea. According to experts, a system of proportional representation is best for Ukraine. The implementation of a proportional system in the Crimea, however, requires additional analysis to guarantee effective mechanisms for Crimean Tatar representation in the Crimean Verkhovna Rada and other locally elected bodies.

Conclusions and Recommendations

The elected Crimean Tatar Deputies at different levels – and their appointed Crimean Tatar civil servants – have been busy influencing decision-making at the local level. For the first time in 15 years, a resettlement plan has been eLabourated aiming at the social and cultural development of Crimean Tatar settlements of Simferopol rayon. In other areas, such as the town of Alushta and Crimean Tatar villages, the absence of Crimean Tatar representatives in the local council testifies the problem of Crimean Tatar representation. The lack of such representation in Alushta has resulted in the blocking off of traffic and disruption of local council work as the Crimean Tatar publicly pressed for solutions to social and economic problems. In Morske village, clashes resulted between Crimean Tatars and the Slavic population in January 2003, resulting in serious injuries on both sides. These types of conflicts have grave consequences for the Crimea as a whole.

The following measures should be taken as part of the solution to the Crimean Tatar problem. First, the local authorities should engage in constant dialogue with Crimean Tatar representative bodies. Such dialogue should take place with the participation of the Verkhovna Rada and the Crimean Council of Ministers, as well as local councils and self-governing bodies. Such a dialogue should also involve representatives of the political, business and professional elite who will contribute to changes in the relevant Ukrainian laws, Presidential Acts, normative and legal acts of the Verkhovna Rada, and decisions of executive bodies. Second, the Crimean Tartar Mejlis must have a formal means of participating in the legislative decision-making process. Third, the Ukrainian Verkhovna Rada should pass the new Law “On Elections of Deputies of the Verkhovna Rada of the Autonomous Republic of the Crimea” which provides for elections either on a proportional basis or by way of quotas. The use of the proportional election system for deputies in the Crimean Verkhovna Rada as well as in local councils would solve not only the problem of Crimean Tatar representation, but would also promote the representation of a wider spectrum of public and political organizations. A quota system would also promote Crimean Tatars’ representation and such a mechanism was used during the election campaign of 1994 of the Crimean Verkhovna Rada. During the period 1994-1998, the Crimean Tatar deputies’ presence in the legislative body decreased the probability of overt ethnic conflict. Conflict moved from the streets to the meeting hall. Finally, Ukrainian policy makers should consider the Lund Recommendation on the Effective Par-
ticipation of National Minorities in Public Life while considering the resolution of the Tartar issue.

References


Section IV

Financing Capacities to Govern
Vertical Imbalance, Externalities and Bailout – The Case of Polish Local Government Borrowing

Bartłomiej Gurba

Introduction

Recent studies about intergovernmental fiscal relations suggest local matters should be handled by local governments instead of by the central government. Yet, many authors point out that decentralisation may be inconsistent with fiscal discipline (Ter-Minassian, 1997; Tanzi, 2000). In systems of inter-governmental fiscal relations, debts and deficits are a major concern. The latest institutional developments in Poland – particularly the decentralisation process and the design of transfers system and borrowing restrictions – is relevant because it leads to bailout and extorted borrowing. Local governments, called gminas, experience significant vertical imbalance as central government transfers add up to about 40% of all gminas’ total revenues (varying between about 10 to 90% across jurisdictions). Several types of transfers impact on the budget, including those aiming at promoting inter-locality equity (subsidies) and internalising spill-over effects (grants). Using matching grants ensures the decentralisation of public goods whose effects ‘spill-over’ across locality lines. Yet, these grants also allow local governments to elicit bailouts from the central government if their own revenues are not sufficient and borrowing is allowed.

This paper argues that vertical imbalance must be reduced to achieve consistency between decentralisation and fiscal discipline. In the Polish context, this paper also explores the link between the internalisation of externalities by central government, vertical fiscal imbalance and borrowing of local governments – focusing on the mechanism of eliciting bailouts. The empirical results show that self-governments equipped with less local taxes borrow more. The central government engaged in internalising spill-over externalities provides grants for public goods that affect the citizens’ welfare between jurisdictions. Yet, receiving grants requires the financial participation of local governments and if local governments’ own revenues are low, they must borrow. By borrowing, they accumu-
late debt and the central government must bail them out supplying transfers that increase the local revenues.

**The model**

According to the theory of fiscal federalism, fiscal equivalence requires that the beneficiaries of public goods and programmes in a certain jurisdiction must pay for them. As von Hagen and Pisani-Ferry (2002) underline, “the exact correspondence of the region benefiting from a program and the region paying for it assures Pareto-efficient outcomes in the provision of public goods and services.” Fiscal equivalence is not guaranteed when local governments finance expenditures for goods whose consumption leads to externalities – namely citizens of other jurisdictions benefit from services that are not provided by these jurisdictions. Local governments thus unintentionally influence the welfare of the country as a whole. To ensure the optimal provision of such “public goods,” the central government provides transfers that compensate for “any difference between the external and the internal benefit of the public good produced” (von Hagen Pisani-Ferry, 2002). Central government finances local spending to internalise externalities (or spillovers). According Wildasin (1997), the appropriate transfers that compensate for external effects are matching grants. The objective of matching grants to modify the relative prices that the sub-national governments face in order to have them spend more on services subject to positive spill-over effects. So the basic motive for the central government to participate in the financing of local spending is the internalization of externalities (or spillovers).

The central government also supplies transfers to limit local government taxes in accordance with the equity principle. An unequal distribution of the tax base among the sub-governments calls for a redistribution mechanism and the financial support of poorer entities. Otherwise, as Buchanan (1950) argues, individuals residing in a richer jurisdiction will obtain a larger net benefit from the local government than poor jurisdiction residents. Transfers therefore aim at redistributing revenues in order to increase local government revenues so as to equalize benefits from public goods. Such transfers are called subsidies.

Limiting local tax revenues leads to a gap in expenditures across localities – called a vertical imbalance. By covering the vertical imbalance through transfers (subsidies and grants) individual jurisdictions can access the common pool of national resources. Yet transfers may not cover the heterogeneous citizen expenditure preferences in certain localities. These expenditures must therefore be financed through borrowing. If the transfers programme neglects specific local needs, local governments may be compelled to over-borrow and get into financial trouble. If local government taxation power is limited, the central government cannot pressure local governments to increase their own revenues, service the
their debts and maintain the supply of goods that increase the welfare of the country. While the central government internalises spill-overs, it still delivers transfers – or bails out – local governments to ensure the supply of goods that produce externalities. Bailouts are given only if it is in interest of the central government and if local governments use the opportunity to elicit additional transfers through debt accumulation.

Wildasins (1997) explains bailouts, the externalities problem and the mismatch between local and central government preferences. In this model the central government establishes a inter-governmental transfer structure which constraints local budgets. Local governments under this constraint set local taxes and spending. The central government observes these spending decisions and supplies additional transfers if the services that affect the welfare of whole country are not adequately supplied.

The external effect in the model results from the fact that each household in the locality also demands – beside private goods and public goods supplied by the central government – the local public goods which yield external benefits to other localities’ households. The consumption of local public goods create interdependency among different households in different jurisdictions. For each locality i, if the household is endowed with w units of private good, the net private good consumption (x) is reduced by local taxes c and central taxes T imposed on each household by both levels of government as shown in equation (1).

\[
x_i = w - c_i - T
\]

The provision of local good z in the model can be paid for from local taxes c_i or with transfers from the central government. For matching grants, the central government reimburses a fixed share (m) of the local public good costs. Such matching grants seek to modify the relative prices that sub-national governments face in order to have them spend more on services subject to positive spillover effects. The level of local public goods (z_i) consumed by each resident of the locality is defined in equation (2a)

\[
z_i = c_i / (1 - m)
\]

when matching grants are provided. Lump-sum subsidies (g) on the other hand are pure income transfers. They increase local government’s revenues by a fixed pre-determined amount and are mostly not restricted to particular

---

1 This good can be health, water or education. In the model the total costs of providing good z to each of localities residents is proportional to the number of households residing in this locality and equal nz. All localities are of identical size n in this model.

2 Local and central taxes are assumed to be uniform lump-sum taxes in order to avoid problems with distortionary taxation.
expenditure categories leading to public service provision as shown in equation (2b).

\[ z_i = c_i + g_i \]

In addition to goods supplied by local governments, the central government supplies the public good \((G)\) financed from taxes \((T)\) imposed on each household. The central government budget constraints is (3a) if subsidies are supplied and (3b) under matching grants.

\[ \Sigma n g_i + G = NT \]

\[ m \Sigma n z_i + G = NT \]

If goods \(z\) produce spill-overs, equilibrium public good provision will be inefficient without central government intervention as each locality ignores the external benefits of its expenditures. The central government can induce greater public good provision by supplying transfers to the local governments. In order to use lump-sum subsidies the central government can impose a tax \(T^\ast = z^\ast + G^\ast / N\) (where asterisks represent optimal amounts) and use the revenues to supply a lump-sum subsidy of \(g^\ast = z^\ast\). The result is an efficient supply of local public good completely financed from the center and no locality imposes local taxes.

For a decentralised efficient Nash equilibrium, the central government must use matching grants. The central government can impose a tax \(T^\ast = m^\ast z^\ast + G^\ast\). With matching grants, local own-contributions are positive in equilibrium (as \(m^\ast\) only covers a fraction of \(z^\ast\)). Matching grants lower the relative price of local public expenditures. The central government alters the budget constraint of a local government but has this local government choose its own contribution \(c\) in order to supply good \(z\) that produce externalities.

**Hypothesis 1:** The proper transfer design in a decentralized environment requires that matching grants are supplied to local governments for tasks that show external effects.

In Wildasin’s paper the free choice of own contribution \(c\) enables local governments to elicit bailout. Bailout can occur if the local governments do not commit to the central government’s policy. First the central government offers matching grants \(m^\ast\). The local government can behave as expected and supply \(z^\ast\) contributing \(c\) to the matching grant \(m^\ast\). But local government has a second alternative. Instead of supplying \(z^\ast\) at an efficient level after receiving \(m^\ast\) from the central government, the local government can set local taxes very low or divert local revenues to other goods that better match local preferences – setting own contribution \(c_i = 0\) and thus \(z_i = 0\). Because good \(z\) has external benefits to households in other jurisdictions, they may be willing to pay to raise \(z\) above 0. The central government, reacting on behalf of these citizens, supplies conditional sub-
sidies $g_i$ in order to ensure the provision of $z_i$ and $z_i = g_i$. Wildasin shows that the center will bail out local government if $z_i$ produces large external benefits and if external benefits have a high value at the margin relative to public good $G$. As the households of locality $i$ are recipients of good $G$ and of matching grants, the local government will not always seek bailouts from the central government. Eliciting bailouts depend on the local government's own preferences and external effects of good $z_i$ generates for other localities. Bailout is more likely if the own-consumption of good $z_i$ for locality $i$ is highly substitutable with the consumption of other goods that do not produce externalities. But if a locality prefers to consume $z_i$ irregardless of the circumstances, bailout will not be attractive. In case of strong external effects produced by good $z_i$ a bailout will rise the welfare of locality $i$ citizens. For small external effects (when most of the benefits go to locality $i$), a bailout will be unattractive because it diminishes the benefits from $G$.

**Hypothesis 2:** Bailout in form of subsidies gets those local governments that refuse to participate in the supply of goods with externalities.

The model of Wildasin can be used to give a motivation to a model that introduces borrowing into the decision-making process of local governments. We consider a two period model and the game goes as follows: The central government offers a matching grant $m^*$ to the local government. The local government must then decide whether to contribute toward the provision of $z_{i1}$ or not. As in Wildasin's model, if the goods $z$ are substitutable or have strong external effects, local government does not contribute and sets $c_{i1}=0$. Thus, as before, the central government provides a subsidy and the provision of good $z_{i1} = g_{i1}$. Alternatively, the local government can decide to obtain matching grant $m^*$ and supply the good $z_{i1}$. This is the case that we will focus on. The local government can now use borrowing in order to co-finance its own participation. In this case the own contribution ($c$) to the supply of good $z$ will depend on taxes ($t$) and borrowing ($b$) such that $c = b + t$. Assuming that the borrowed amount must be paid back in period two, the single decision to borrow in period one influences the participation in period two, depending on the type of local government – the ability to generate own revenues ($t$) in period two. There are basically two possible types of local governments. In the first type the vertical imbalance is low and the local government has high own revenues. In the second type the local government experiences a high vertical imbalance and collects only a limited amount of taxes. The possible outcomes of the game are illustrated in figure 1.
Section IV  Financin g Capacities to Govern

**Figure 1**
Bailout and borrowing under incomplete information

For the first type $t_{2i} \geq b_{1i} + c_{2i}$, the local taxes cover borrowing from previous periods and the amount $c_i$ needed to supply good $z_i$ in the next period. The local government pays the debt back from its regular tax resources. In order to receive the matching grant $m^*$ in the following period, it must find resources to cover the required participation rate $c_{2i}$. As the vertical imbalance is low the local government can claim an extra tax in order to supply good $z$ and receive grant $m^*$. The borrowing decision in case of this type of the government will lead to the participation in any case.

For the second type $t_{2i} < b_{1i} + c_{2i}$, the local government experiences a high vertical imbalance and collects only a limited amount of taxes. Taxes are assumed to be smaller than the required participation rate $c_{2i}$ and cannot increase without bound with borrowing as in case one – and thus $t_{2i} < b_{1i} + c_{2i}$. Such an assumption reflects the limited ability of local government to claim new taxes. If the revenues are small the local government cannot pay for the debt and for its own participation $c$ in the following period even if it wanted to. The local government must pay back the debt and do not contribute to the supply of good $z$. The local government would get bailout $g^*$ from the central government as $c=0$. The bailout is a result of high vertical imbalance and too high borrowing that exceed the ability to collect own taxes.

---

3 If local government decide not to borrow because of sufficient tax revenues the outcome is the same like in Wildasin paper – the local government receive $m^*$ and the supply of $z=c/(1-m)$.
The goal of the central government would be to offer a matching rate $m^*$ that ensures the optimal allocation of good $z$. That can be achieved only if local governments participate in the supply of good $z$ using borrowing and local taxes in an efficient way. The central government conditions his actions – supplying grants or bailout – according to local government choices which depend on vertical imbalance. As the central government have limited information about the local governments ability to generate own revenues and only suspect its type it offers grants and observe the reaction. This may lead to inefficient allocation as the matching rate can be to low and the local governments may be forced to borrow more than they are able to pay back from own revenue sources. The effect can be refusing of participation in the supply of good $z$ and eliciting bailout in form of subsidies.

The way to deal with such games with incomplete information is the method of mechanism design with a principal and a single agent. In our case, the principal is the central government that maximizes the total surplus in the economy, and the agent, the local government with private information about his exogenous type $t$ – the degree of vertical imbalance or the ability to set local taxes. The object by the mechanism built by the central government is to determine an optimal allocation of good that produce spillovers $z(t) = (c_{ii}(t), m(c_{ii}))$ set by the local government. The allocation consists of $c_{ii} = t + b_{ii}$ – the participation rate $c_{ii}$ called local governments decision function equal the type $t$ and the borrowed amount $b_{ii}$ measuring the “less taxing effort” – and a vector of monetary transfers $m$ from the central to the local government. The central government has two observables; the level of transfer $m$ and the level of participation $c_{ii}$. In general the contract will be a function $m(c_{ii})$ specifying the value of transfers received by local government for its participation. The game goes as follows: In step 1 the principal offers a matching grant with rate $m$ for good $z$ specifying the participation $c$ that have to be contributed by local government. The central government commit to that value of $m$ for period two. In step 2 the local governments borrow and receive grant $m$. The borrowing decision is done once meaning it is at the same time a decision for participation in the supply of good $z$ in period one and participation or rejection of the mechanism in the next period when the debt must be paid back. Conditional on the vertical imbalance – the type $t$ – the local government will be able to supply the good $z$ in period two what will mean that mechanism in step 3 is accepted or it will not able to participate with $c_2$ what will mean the rejection. The commitment of central government at the date one to an intertemporal (period one and period two) incentive scheme $m$ proposed to local government eliminates the

---


5 The single agent model presented here applies to situations with a continuum of agents, each of whom interacts with the principal but not with the other agents Tirole and Fudenberg (1991). Such games are typically studied as a three step games between a principal that maximizes its utility and an agent which type is his private information. Because the agent may have different types, the principal must offer different allocations if he do not know the type.
dynamic problem reducing the model to a static framework of a decision concerning \( b \) in period one.

By choosing the allocations the principal is bounded by two constraints: the individual rationality constraint (IR) that ensure that agent participate in the allocation and the incentive-compatibility constraint (IC) that ensure the agent get the allocation intended for his type. In our case the (IR) constraint simply says that the utility level that a local government obtain if it participates must be nonnegative. For the (IC) constraint it is necessary that the local government's type affects the marginal rate of substitution between borrowing and grant in a negative way. This means that the borrowing decisions of local governments with lower vertical imbalance are less sensitive to the amount of grants offered by the central government and that those local governments must be compensated more than the high vertical imbalance governments for a given increase in the decision \( b_{it} \). Fulfilling of the IC constraints has consequences for the local government utility – the informational rent. This rent is a decreasing function of \( t \), since a local government with lower vertical imbalance will be able to supply the same participation \( c \) by less borrowing.

The central government faces a trade off between maximizing the efficiency of supply of good \( z \) which requires that the marginal utility of less tax effort in period one is chosen optimal for all \( t \) and the elimination of the local governments informational rent. To reduce rents for the local governments with higher vertical imbalance the central government will encourage less taxing effort in period one – it will elicit more borrowing setting fewer matching rates then it would if the type of local government would be known.

Comparing the first order conditions of the maximization problem with perfect information with the outcome for imperfect information shows that \( b^* (t) \) is higher for given vertical imbalance level if the central government do not know the local government type. This is due to the fact that central government reduce the rent of local governments with high vertical imbalance encouraging them to borrow more. If the borrowing is higher then optimal the local governments with high vertical imbalance will get into financial trouble and will not be able to supply good \( z \) even if according to the model of Wildasin (1997) they will prefer it.

Developments in the case of incomplete information can be controlled by the central government by establishing borrowing restrictions, lowering vertical imbalance, increasing matching grants or establishing a system that ensures perfect information concerning type of local governments. Through such solutions the central government can enforce that the scenario with sub-optimal borrowing and bailout due to refusing of supply good \( z \) can be avoided.

**Hypothesis 3:** With no information about vertical imbalance borrowing will be sub-optimal. It will be higher for local governments that collect less local taxes. It will increase if the grants for goods with externalities increase.
The Shaping of Poland’s Decentralised System

Poland is a unitary country and has a three-tiered system of self-government shaped in two phase decentralisation process – from 1991 to 1998 and after 1998. In 1991, self-government on the local level were introduced in about 2,500 gminas. there were 49 voivodships (a voivod is the head of the regional level) and 254 intermediate-level regions which represent the central administration in the province. In 1998 decentralisation reform occurred at the intermediate and regional levels – based on provisions in the 1997 Constitution. The 1998 reform introduced self-government to the 16 newly created voivodships on the regional and the 381 districts (powiats) at the intermediate level. Forty-six of the largest cities and 19 former voivodship capitals gained a special position among the gminas – being given the rights and responsibilities of both gminas and powiats while existing as one entity. The 16 voivods still represented the central government in regions.

As a result of the reforms, self-government’s share of public sector expenditure to GDP increased from roughly 7% in 1994 to 11% in 2001. Self-government expenditure consisted of 25% of total expenditures and 27% of public sector revenues in 2001. Yet, they run deficits of less than 0.5% of GDP while the central government’s deficit reaches 5% of GDP. National public debt in 2001 was 42% of GDP – with only roughly 2% of this is debt being held by local governments. The gmina represents the most important tier of local governments in financial terms – even if gmina expenditures and revenues are only 5 to 6% of GDP. In contrast to other tiers, gmina expenditures and revenue shares stayed constant even after the 1998 reform.

Responsibilities for every tier of government are a mixture of “own tasks” and mandated tasks and tasks allotted according to the subsidiary principle (tasks are assigned to the lowest tier capable to carrying out the task such as in transport, education and health). All government tasks not assigned to other jurisdictions have to be fulfilled by gminas – which are the basic units of local government. “Own tasks” have not changed much since 1991 and most of them are exclusive tasks of gminas – including municipal services like water supply, heat and electricity supply, sanitation and waste disposal. Other own tasks include primary education, housing, local environment protection, cultivation of trade places, parks and cemeteries and the

6 Powiats provide those services that extend beyond gmina boundaries. Powiats are responsible for supervising construction, reducing unemployment, and running institutions providing special social services for families and childcare. Voivodships are responsible for regional development strategies in their “voivodship contracts” or multi-year investment programmes with the central government. They also manage cultural institutions, reduce unemployment through their Voivodship Employment Centers, modernise rural areas, preserve the environment, manage water supplies and improve land resources. Central governments tasks include basic state functions like national defense, justice and public order. They are also responsible for development-related tasks like structural programs related to the mining and steel industry and export promotion – while delegating others (particularly education and transport) to local governments.
management of cultural institutions. Supporting tourism and recreation is another one of gminas’ and cities’ own tasks. Mandated tasks which are fulfilled by gminas and financed by additional transfers are mostly about social welfare and public order.

Some tasks are divided between levels of government according to the subsidiarity principle. Responsibility for local, inter-urban, regional and national highways is shared among all tiers depending on the geographical scope of the roads. Kindergartens as well as primary and secondary schools are run by gminas and cities, while high schools, vocational and technical schools and schools for the disabled are run by powiats and cities with powiat responsibilities. Universities are run by voivodships. The central government sets standards and norms the education policy accordingly. Gminas are responsible for public health policy within their borders and providing basic public health and nursing services. Hospitals and more specialized facilities are run and owned by cities, powiats and voivodships. The central government runs branch hospitals (such as military hospitals) and sets standards for each medical facility. In many areas, the central government has defined and financed the functions provided by local governments. For example teachers have to be paid according to the centrally fixed amount but within the frame of the education subsidy divided locally.

High jurisdictional inter-dependency and the large influence of single local government decisions on the welfare of other jurisdictions is implied by the shares of expenditures undertaken by gminas (Table 1). Expenditure categories with spillover effects are education, health protection, social services and transport. Other categories like municipal services, housing, public order or public administration are more or less local goods with only local benefits. Over 50% of total expenditures comprise categories with spillover effects – with education having the highest share in total gmina expenditure. Gminas spend 10% of their funds for social protection. The share of health protection decreased after the health care system reform of 1998. Yet, expenditures for all other goods with spillovers increased for the same period while the supply of local goods mostly decreased. Municipal service expenses, for services like water, heat and electricity supply, sanitation and the waste disposal system, decreased as a share of total expenditures during the period. An increase in public order expenditures is related with a mandated task from central government. Public administration expenses also increased – reflecting the 1998 decentralisation reform.

While these expenditure categories may have spill-over effects, lack of more detailed data leads me to assume that these categories have mostly local benefits.
Table 1
Shares of Expenditures and Categories in Gminas Expenditures in 1994-2000

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>3.5</td>
<td>3.6</td>
<td>3.0</td>
<td>2.4</td>
<td>2.0</td>
</tr>
<tr>
<td>Communication</td>
<td>0.5</td>
<td>0.5</td>
<td>0.3</td>
<td>0.1</td>
<td>0.0</td>
</tr>
<tr>
<td>Culture and art</td>
<td>2.8</td>
<td>2.8</td>
<td>2.9</td>
<td>2.9</td>
<td>3.0</td>
</tr>
<tr>
<td>Education</td>
<td>38.2</td>
<td>37.4</td>
<td>37.4</td>
<td>39.6</td>
<td>42.1</td>
</tr>
<tr>
<td>Finance</td>
<td>0.1</td>
<td>0.2</td>
<td>0.3</td>
<td>0.5</td>
<td>0.8</td>
</tr>
<tr>
<td>Forestry</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Grants for economic tasks</td>
<td>0.2</td>
<td>0.1</td>
<td>0.1</td>
<td>0.1</td>
<td>0.0</td>
</tr>
<tr>
<td>Health protection</td>
<td>2.5</td>
<td>2.7</td>
<td>2.8</td>
<td>1.4</td>
<td>1.2</td>
</tr>
<tr>
<td>Housing</td>
<td>3.7</td>
<td>4.2</td>
<td>4.3</td>
<td>4.4</td>
<td>3.9</td>
</tr>
<tr>
<td>Municipal Services</td>
<td>20.7</td>
<td>20.3</td>
<td>20.2</td>
<td>16.6</td>
<td>15.8</td>
</tr>
<tr>
<td>Public administration</td>
<td>11.3</td>
<td>11.0</td>
<td>11.2</td>
<td>12.1</td>
<td>12.2</td>
</tr>
<tr>
<td>Public order</td>
<td>0.1</td>
<td>0.1</td>
<td>0.3</td>
<td>0.5</td>
<td>0.8</td>
</tr>
<tr>
<td>Social services</td>
<td>9.9</td>
<td>10.1</td>
<td>10.4</td>
<td>10.4</td>
<td>10.5</td>
</tr>
<tr>
<td>Sport</td>
<td>1.2</td>
<td>1.6</td>
<td>1.9</td>
<td>1.9</td>
<td>1.7</td>
</tr>
<tr>
<td>Transport</td>
<td>2.6</td>
<td>3.1</td>
<td>3.3</td>
<td>6.0</td>
<td>6.4</td>
</tr>
<tr>
<td>Tourism</td>
<td>0.1</td>
<td>0.1</td>
<td>0.1</td>
<td>0.1</td>
<td>0.1</td>
</tr>
<tr>
<td>Universities</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Other</td>
<td>2.5</td>
<td>2.3</td>
<td>1.7</td>
<td>1.3</td>
<td>0.0</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

Note: Zero shares may reflect non-zero but extremely low shares. Rounding may similarly affect the total.

Decentralisation of revenue sources and the degree of vertical imbalance

The 1990 Act on Local Self-Government divides general revenue sources for gminas into own revenues (local taxes and shares in central taxes, local fees and revenues from gmina properties), subsidies, and grants. Subsidies are formula-based payments to local governments, while grants are discretionary payments made by the central government to local units to promote the provision of positive externality goods which spillover into other jurisdictions. Revenues in the legal category “own revenues” are gathered from, among other sources, tax sharing (a form of formula based transfer). Until 1998, these revenues were 16% of Personal Income Tax (PIT) revenues collected from gmina inhabitants, and 5% of Company Income Tax (CIT). Since 1998 the revenue shares from PIT have increased to 28% (33% for mining gminas). Gminas are the only tier of sub-governments that can set rates for certain local taxes, which for property and transport taxes are capped. Agriculture and forest taxes depend on the gmina’s...
membership in certain agriculture tax districts, which were established to reflect differences in forest and soil qualities. Gminas do not set rates of inheritance tax and business tax even though both taxes contribute to gmina revenues.

Table 2
General Subsidies to Gminas Pre and Post 1998

<table>
<thead>
<tr>
<th>Subsidy</th>
<th>Pre-1998</th>
<th>Post-1998</th>
</tr>
</thead>
<tbody>
<tr>
<td>Education Subsidy</td>
<td>Distributed among gminas according to the number of pupils and the number of schools.</td>
<td>Depends on the number of schools and pupils as before but increased from 6.6% to 12.8% of central government budget revenues.</td>
</tr>
<tr>
<td>Equalization Subsidy</td>
<td>Received by gminas whose per capita tax revenue indicator was lower than 85% of the general indicator calculated for revenues of all gminas. Gminas whose indicator exceeded 150% of the general indicator contributed money in order to increase the subsidy pool.</td>
<td>Incorporated into Basic Subsidy after 1998</td>
</tr>
<tr>
<td>Remaining Subsidy</td>
<td>Distributed among gminas according to the number of citizens</td>
<td>Incorporated into Basic Subsidy after 1998</td>
</tr>
<tr>
<td>Compensation Subsidy</td>
<td>The 1993 Road Subsidy was divided among units, depending on criteria like length and quality of roads as well as the number of cars and accidents.</td>
<td>The Compensation Subsidy was established to compensate for revenues from taxes on transportation which have been limited*</td>
</tr>
<tr>
<td>Basic Subsidy</td>
<td></td>
<td>Divided into the Equalization Part (calculated the same way as before) and the Remaining Part, which is distributed among all gminas and calculated on a per capita basis.</td>
</tr>
</tbody>
</table>

The revenues mentioned in the Act on Gmina Revenues (1993) include transfers from the central budget, divided into Road Subsidy, General Subsidies, and Grants. The Road Subsidy was divided among units, depending on criteria like length and quality of roads as well as the number of cars and accidents. In 1998 General Subsidy was restructured and consists of Basic, Education and Compensation Subsidies and the components of this subsidy are shown in Table 2. As shown in Table 3, there were three types of Grants until 1998: grants for delegated tasks, grants from special purpose Funds, and grants to co-finance self-governments own tasks. All grants are extraordinary revenue sources for gminas and spending from grants is limited to expenditure categories supported by the

* The Law on Revenues of Self-Government Units for the years 1999–2001 also describes the revenue sources for powiats and voivodships.
central government. Only Grants for own tasks are classical matching grants setting a transparent rate of own participation of gmina. Nevertheless the other types of grants mentioned in the Table 3, requires participation in administrative costs or engagement in activities that enable using of these grants.

**Table 3**
Types of Grants

<table>
<thead>
<tr>
<th>Grants for delegated tasks</th>
</tr>
</thead>
<tbody>
<tr>
<td>For tasks – mostly in administration – that the central government will not fulfill in the future or decided to delegate to gminas. Central government delegating a task should ensure financing. Central government inform about the amount until 25.10. In case of delay of the grant local government may go to the court.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Grants from special purpose funds</th>
</tr>
</thead>
<tbody>
<tr>
<td>Supplied by central government funds (like Fund for disabled people or Fund for environment protection).</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Grants for own tasks</th>
</tr>
</thead>
<tbody>
<tr>
<td>“Matching grants” given by the Voivod for investments and must not exceed 50% of the planned investment. Applications are needed 30 days after CG budget is adopted.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Grants for public order (post-1998)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Delivery depends on discretionarily placed agreements between self-government units and the central government. Central government inform about the amount until 25.10.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Grants for tasks implemented by self-governments on the basis of agreements with central government agencies and other self-governments (post-1998)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Central government inform about the amount until 25.10.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Grants from foreign donators and grants from the central budget to co-finance these foreign grants (post-1998)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Directly connected with the EU integration process</td>
</tr>
</tbody>
</table>

Self-government revenue dynamics may be used to define the degree of vertical imbalance in Poland as reported in Table 4. After some adjustments in the early 1990s, from 1995 to 1998 the composition of gminas revenues was stable. Lo-

---

8 These Funds are independent entities, have own budgets and can provide grants discretionary. Gminas have to apply and fulfill some criteria to get the grant.

9 75% in case of gminas with revenues indicator smaller than 60% of general indicator.
Section IV    Financing Capacities to Govern

cal taxes, transfers from shared taxes and subsidies each amounted to about 25% of total revenues. Grants amounted to about 15% and the vertical imbalance was about 60%. The reform of 1998 did not change gmina income sources dramatically. Vertical imbalance increased by about 3 percent points reaching over 62% in 2001. Important sources of gmina revenues after 1998 were local taxes. The property tax was an important income source and its share in gmina revenues grew from 11.7% in 1999 to 14.8% in 2001. The agriculture tax yields about 2% of revenues and income from inheritance tax grew from 0.3% in 1999 to 1.6% in 2001.

Table 4
Gminas revenues by category -- 1991-2001

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Real Estate Tax</td>
<td>15.3</td>
<td>16.4</td>
<td>14.8</td>
<td>13.4</td>
<td>14.1</td>
<td>11.4</td>
<td>11.2</td>
<td>11.3</td>
<td>11.7</td>
<td>12.3</td>
<td>14.8</td>
</tr>
<tr>
<td>Transport Tax</td>
<td>1.1</td>
<td>3.5</td>
<td>3.3</td>
<td>2.8</td>
<td>3.0</td>
<td>2.7</td>
<td>2.9</td>
<td>0.8</td>
<td>0.7</td>
<td>0.7</td>
<td>0.8</td>
</tr>
<tr>
<td>Agricultural Tax</td>
<td>3.9</td>
<td>2.7</td>
<td>3.8</td>
<td>2.8</td>
<td>2.6</td>
<td>2.2</td>
<td>2.0</td>
<td>1.8</td>
<td>2.3</td>
<td>2</td>
<td>2.1</td>
</tr>
<tr>
<td>Stamp Fees</td>
<td>4.6</td>
<td>5.3</td>
<td>5.0</td>
<td>4.0</td>
<td>3.7</td>
<td>3.4</td>
<td>3.3</td>
<td>3.4</td>
<td>4.3</td>
<td>3.8</td>
<td>1.1</td>
</tr>
<tr>
<td>Asset Sales</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
<td>3.0</td>
<td>3.1</td>
<td>3.6</td>
<td>4.0</td>
<td>4.1</td>
<td>7.8</td>
<td>7.9</td>
<td>4.8</td>
</tr>
<tr>
<td>Own-Revenues:</td>
<td><strong>45.5</strong></td>
<td><strong>47.3</strong></td>
<td><strong>46.5</strong></td>
<td><strong>40.3</strong></td>
<td><strong>40.1</strong></td>
<td><strong>35.0</strong></td>
<td><strong>35.3</strong></td>
<td><strong>33.5</strong></td>
<td><strong>37.1</strong></td>
<td><strong>36.6</strong></td>
<td><strong>37.5</strong></td>
</tr>
<tr>
<td>CIT</td>
<td>0.0</td>
<td>2.6</td>
<td>3.6</td>
<td>2.5</td>
<td>2.3</td>
<td>1.8</td>
<td>1.8</td>
<td>1.7</td>
<td>1.4</td>
<td>1.6</td>
<td>1.1</td>
</tr>
<tr>
<td>PIT</td>
<td>0.0</td>
<td>19.6</td>
<td>21.8</td>
<td>20.6</td>
<td>20.7</td>
<td>22.7</td>
<td>22.4</td>
<td>23.0</td>
<td>16.3</td>
<td>14.3</td>
<td>13.5</td>
</tr>
<tr>
<td>Shared Taxes:</td>
<td><strong>28.9</strong></td>
<td><strong>22.2</strong></td>
<td><strong>25.4</strong></td>
<td><strong>23.1</strong></td>
<td><strong>23.1</strong></td>
<td><strong>24.5</strong></td>
<td><strong>24.3</strong></td>
<td><strong>24.7</strong></td>
<td><strong>17.7</strong></td>
<td><strong>15.9</strong></td>
<td><strong>14.6</strong></td>
</tr>
<tr>
<td>Delegated tasks</td>
<td>10.8</td>
<td>16.3</td>
<td>13.1</td>
<td>18.4</td>
<td>13.7</td>
<td>7.3</td>
<td>7.5</td>
<td>7.4</td>
<td>7.1</td>
<td>7.2</td>
<td>7</td>
</tr>
<tr>
<td>Own tasks</td>
<td>1.2</td>
<td>2.5</td>
<td>3.6</td>
<td>3.2</td>
<td>4.2</td>
<td>4.8</td>
<td>4.8</td>
<td>5.0</td>
<td>2.9</td>
<td>4.4</td>
<td>2.8</td>
</tr>
<tr>
<td>Grants:</td>
<td><strong>12.0</strong></td>
<td><strong>18.8</strong></td>
<td><strong>16.7</strong></td>
<td><strong>21.6</strong></td>
<td><strong>20.6</strong></td>
<td><strong>13.9</strong></td>
<td><strong>14.1</strong></td>
<td><strong>14.3</strong></td>
<td><strong>11.6</strong></td>
<td><strong>13.7</strong></td>
<td><strong>11.7</strong></td>
</tr>
<tr>
<td>General Subsidy</td>
<td>13.5</td>
<td>11.7</td>
<td>11.4</td>
<td>14.9</td>
<td>15.2</td>
<td>25.3</td>
<td>24.1</td>
<td>25.4</td>
<td>33.6</td>
<td>33.8</td>
<td>36.2</td>
</tr>
</tbody>
</table>

Source: Kopanska Levitas (2002).
Note: Not all revenues are included of which the small business tax is the most important.

The composition of revenues differs across gminas. Some jurisdictions are more dependent on transfers from the central government than others and differences can be extreme. Table 5 shows summary statistics of the main revenue categories for 2,500 gminas over a seven year period – from 1995 to 2001. In some gminas, dependence on central government transfers measured by vertical imbalance is under 10% and others where it reached 90%. Subsidies represent the highest standard deviation and the highest share in total revenues – some years certain gminas did not receive any grants or subsidies. While shared taxes and grant to total revenues have similar means, grants attained a maximum of 65% of
revenues while shared taxes only reached 57%. In the case of shared taxes, some gminas paid more income taxes back to the citizens than they received. Property tax, at an mean of 10% reached a maximum of 73%. While the smallest deviation occurred for transportation taxes.

Table 5
Main revenue categories in total gminas revenues.

<table>
<thead>
<tr>
<th>Category</th>
<th>Mean</th>
<th>Std. Dev.</th>
<th>Min</th>
<th>Max</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vertical imbalance</td>
<td>.67</td>
<td>.12</td>
<td>.01</td>
<td>.94</td>
</tr>
<tr>
<td>Subsidies</td>
<td>.37</td>
<td>.15</td>
<td>0</td>
<td>.74</td>
</tr>
<tr>
<td>Grant</td>
<td>.15</td>
<td>.07</td>
<td>0</td>
<td>.65</td>
</tr>
<tr>
<td>Shared tax</td>
<td>.15</td>
<td>.07</td>
<td>-.04</td>
<td>.58</td>
</tr>
<tr>
<td>Property tax</td>
<td>.10</td>
<td>.07</td>
<td>0</td>
<td>.73</td>
</tr>
<tr>
<td>Agriculture tax</td>
<td>.05</td>
<td>.04</td>
<td>0</td>
<td>.43</td>
</tr>
<tr>
<td>Transport tax</td>
<td>.02</td>
<td>.02</td>
<td>0</td>
<td>.15</td>
</tr>
</tbody>
</table>

Source: Main Statistic Office, own calculations. Based on 17192 observations.

Borrowing restrictions and borrowing

The process establishing local government borrowing restrictions can be divided into three periods – corresponding with every parliamentary election. From 1990 to 1993, limitations depended on expenditure levels. In 1993, repayments of short and long term loans were no longer allowed to exceed 15% of the planned annual revenues. In 1998, borrowing limitations were established in the Constitution (capping public debt at 60% of GDP) and in the Law of Public Finance (introducing limits if the consolidated public debt exceeds 50% of GDP). Local government budgets depend on the central budget. Local governments adopt the budget after having been informed by the central government about the grants and the public sector debt-to-GDP ratio. Nevertheless, discretionary changes

---

10 Councils and executive boards of sub-national governments have to follow the budgetary rules described in the Law of Public Finance of 1998 (which replaced the State Budget Law of 1991). The most important issues described in these laws are the budgeting process, borrowing restrictions and the relations between local governments and several monitoring institutions including the 16 Voivods, 16 Regional Accounting Offices (RIO) and the Ministry of Finance with Treasury Offices.

11 Other limits include caps on repayment of obligations not exceeding 15% of revenues (and 12% if national debt exceeds 55% GDP) and local government debt not exceeding 60% of current year revenues.
to local government grants and subsidies can be made by ministers during the budget year until November 30.

Until 1996, gminas did not borrow much due to the unstable macroeconomic situation and a lot of uncertainty about inflation and interest rates (Kopanska and Levitas, 2002; Swianiewicz, 2002). The fall of inflation and interest rates, competition among commercial banks, and the improvement of local government qualifications and investment planning led to a development of commercial credit and bond markets. Big cities were the first to use credit and Swianiewicz (2003) shows that 56% of all commercial credit between 1995 and 1997 was extended to cities with more than 100,000 citizens. He also found a positive correlation between the debt-to-revenues ratio and total revenues per capita in year 2000. Poor gminas with revenues under 1,000 PLN\(^{12}\) per capita had issued debt less than 10% of their annual budgets while rich gminas with per capita revenues over 1,600 PLN issued debt up to 20% of annual revenues. He also found a strong positive relationship between debt and investment expenditures. At the end of 2001 the total outstanding debt of all self-governments was only 15.4% of their total annual income – much less than the statutory limit of 60%. But in 2000, 14 gminas debt-to-revenues ratio exceeded 60%, while in 2001, 21 violated the restrictions.

Do the shares of grants in the total transfer pool influence borrowing decisions, given different levels of vertical imbalance and if the subsidies are delivered as a bailout? Could we find confirmation for the hypothesis proposed in the theoretical part? Let us summarize the findings that will allow us to answer these questions. On the expenditure side the division of tasks is targeted on the consequent adoption of the subsidiary principle. Fulfilling of these tasks produce spillovers. The result is that 50% of expenditures of gminas can be classified as those that have external effects. On the revenue side the dependence on central transfers varies across jurisdictions and may reach even 90% of revenues. The grants supplied by central government fit into the definition of matching grants given by the model. They are extraordinary revenues that require fulfilling certain conditions from the local government in order to use them. Each year the central government offers such grants to gminas in the beginning of the budgeting process. It informs also about the debt of public sector. These make it possible to adjust the expenditures of gminas through borrowing. The incentive to borrow is strengthen through institutional developments of the banking sector and the credit market. The central government delivers also subsidies that increase the income of local governments. In order to avoid eliciting bailout from central government through debt accumulation borrowing restrictions were introduced.

---

\(^{12}\) 1 Polish Zloty (PLN) = 4,7 Euro (24.03.2004).
The 1998 reform sets the limit on public debt that includes local debt and makes the implementation of repair procedures depending of passing certain benchmarks. These facts were a framework for a data analysis of local government budgets. According to that work that I have done, gminas with a higher average grants-to-transfer ratio have a higher debt at the end of the period. Higher shares of grants in transfers worsens the budget position while subsidies and own revenues have a positive impact. The delivery of subsidies improves budget balance as expected. The vertical imbalance indicator has a positive sign as well meaning that higher local taxes prevent debt accumulation. Budget balances for all years studied had been worsening, particularly until 2000. The borrowing restrictions did not stop this trend and led to debt accumulation and a bailout in 2001. Worse budget balance in the previous year is followed by grants in the current year – further showing that grants give incentives to local governments to increase their borrowing. Such scenario is possible if the vertical imbalance is high and local governments do not have enough local revenues to cover their debts. According to the model previously mentioned, as local governments start to pay their debts back, the central government will supply subsidies.

Specifically, in the case of low own revenues (high vertical imbalance), local governments must borrow for the purpose of financing the supply of good z. They accumulate debt and the central government must bail them out supplying subsidies that increase local revenues and forbear dramatic expenditures cuts for services that show spillovers. Subsidies are positively correlated with the level of local government’s debt and the results show that higher debt in the year 2000 leads to higher subsidies in 2001.

**Conclusions**

This paper has explored the link between vertical imbalance covered by different transfers and the local government borrowing in Poland. Self-governments with less own revenues borrow more – indicating their need for financial sources in order to make grants available for them. In order to cover deficits from previous years and obtain new grants, local governments accumulate debt. The central government supplied subsidies in 2001 in order to bailout have indebted gminas and, as a result, borrowing decreased in the same year. Borrowing restrictions introduced in Poland in 1998 do not limit borrowing. Local governments with higher vertical imbalance borrow more than they did before the restrictions were introduced.

13 A description of the data used, econometric techniques and the detailed results are available from the author upon request.
Using matching grants promotes the decentralised provision of public goods that spill-over across jurisdictions, but allows eliciting central government bailouts if own local government revenues are not sufficient and borrowing is allowed. The reason is that the central government set lower matching rates due to imperfect information concerning the local governments taxing power and local government must borrow more than optimal if they want to participate in the supply of goods that yields externalities. Therefore vertical imbalance must be reduced to achieve consistency between decentralisation and fiscal discipline. As an answer to one of Wildasin’s questions, fiscal crises can be the result of too little decentralisation rather than too much – a result of clear importance as matching grants from European Union become available for local governments in Poland.

References


Gilowska Z. (1999).”System finansowy jednostek samorządu terytorialnego” in “Decentralizacja organizacji terytorialnej kraju” CASE.


162


Vinuea J,”Fiscal Decentralisation in Spain”.


February.

Introduction

How can budget incentives for local governments in the Republic of Bashkortostan (RB) be improved in order to promote the provision of public goods, spur economic development, and broaden and develop the tax base?¹ The legacy of the Soviet budget system continues to hinder the development of the Bashkortostan region and without significant reform in inter-governmental fiscal relations between the Republican government and the 62 upper level local governments, the potential of this region (and other regions within the Russian Federation) will continue to be unrealized. As the transition enters the second decade, reform of intergovernmental fiscal relations should occur within each of the Republics.²

Such reform should mend the exiting disconnection between the objectives of the federal government and the practices of regional governments. While the Russian Ministry of Finance recommends that regional governments should use indicators of expenditure needs (such as the percentage of unemployed, elderly,

¹ With a population of approximately four million people, one million of which lives in the capital of the republic Ufa, Bashkortostan has a geographical span roughly equivalent to that of Greece. It is a multi-ethnic republic represented by about one hundred nationalities with approximately 65% of the population residing in urban areas. Significant ethnic groups include: Russians, Bashkirs and Tatars who compose the majority of the population, but also Ukrainians, Germans, Jews, Chuvashs, Maris, Mordvinians, and others. While there is a significant degree of ethnic mixing in the urban areas, many rural enclaves exist where one ethnic group is in the majority. Bashkortostan’s reliance on petroleum and agricultural production; it’s relatively high level of ecological problems; and its relatively low level of development of social and educational spheres in comparison with other regions of the RF presents a unique governance challenge.

² For now, we leave the issue of the relations between the regional, upper, and lower level governments to future research.
and disabled), the Bashkortostan government’s policy is to allocate resources according to existing infrastructure. Officials of the Bashkortostan’s Ministry of Finance say that direct implementation creates problems at the local level due to the asymmetric distribution of the infrastructure for local public goods delivery. Appropriate budgetary incentives are not provided to local governments because of the instability of tax rates (and tax sharing arrangements in federal and Bashkortostan legislation) and the under-funding schools, hospitals and other infrastructure which arises because of the difference between actual expenditures (the minimal expenditure needs of the current infrastructure) and the expenditure needs computed on the basis of actual number of public service users.

**Background**

The problem of perverse budget incentives in the Russian Federation is a legacy of the Soviet period when expenditures were a mixture of top-down planning and negotiation between the various levels of government. Budget making was more a process of negotiation than systematic analysis and execution. Curiously, the negotiated component of the intergovernmental system increased at the beginning of the transition process in 1992, increasing uncertainty and undermining planning at the regional level of the Russian Federation. Over time, however, the federal government sought to rationalize the intergovernmental system thought the introduction of a formula-based system of intergovernmental grants and transfers.

Beginning in 2000, the formula-based mechanism has been used to allocate financial support from the Federal to regional governments. The main part of the federal support is allocated among 88 regions according to a formula-based scheme from the “fund of financial support of regions (FFSR)”. The support for the Chechen Republic is calculated by count-up. Separate from the FFSR, another formula-based approach is used for financial federal mandates related to the federal laws on social protection. These measures, coupled with the introduction of the Tax Code and the Budget Code in 2000, established certain budget incentives for subjects of the federation to improve the provision of public goods and promote economic development.

Accompanying the introduction of the Tax and Budget Codes in 2000, the Ministry of Finance issued a set of recommendations concerning intergovernmental relations within the regions of the Russian Federation (MoF Recommendations). The MoF proposed that regional governments use a formula-based mechanism for the allocation of public resources among local governments similar to the mechanism used by the federal government for the allocation of

---

resources to regional governments. The formula-based approach would increase transparency in the allocation of public resources and decrease the variability in the provision of resources to local governments from regional governments. Proponents of this approach argued that a formula-based approach at the regional-local level would increase economic efficiency, improve transparency, and promote economic development. On the other hand, a significant number of officials at the regional level have argued that a formula-based mechanism, which is entirely suitable for federal-regional intergovernmental issues, cannot be used in the allocation of resources by regional governments among local jurisdictions.

In 2001, the federal government adopted “The Program of Development of Budget Federalism in the Russian Federation Until the Year 2005” as part of the continued effort to improve intergovernmental fiscal relations within the Russian Federation. Unlike previous efforts that focused on the relations between the federal and regional governments, this effort focused on improving the state of intergovernmental relations between regional and local governments. The new program attempts to clarify the status of local governments relative to regional governments; assign expenditure responsibilities and revenue sources; improve budget transparency at the local level; and align incentives to improve the delivery of local public goods and promote economic development.

Budget and Economic Policy in Bashkortostan

There are two levels of local self-government in Bashkortostan. The upper level includes 62 “state local governments”, comprised of cities, towns and rural territories. The lower level of local government in Bashkortostan includes local governments which govern districts within larger cities.

During the 1990s, the strategic objectives of the Bashkortostan government with respect to economic and budget policy were budgetary support of economic activity (with particular focus on agricultural activities), public investment in industrial infrastructure development and social protection, with specific emphasis on mitigating social issues related to the transition process. At the Republican level, support of the industrial and construction sectors and local governments

---

4 Some upper level governments cover a rural territory and a town within the territory such as the city of Belebey and the Belebey rayon which have only one government. In other cases, a rural rayon and a city within the rayon may have separate local governments. Those rural rayons without significant urban areas have populations of between 15,000 to 52,000 citizens. Twenty cities and towns have populations from approximately 20,000 (the town of Agidel) to one million people (the city of Ufa).

5 Public investment included the construction and reconstruction of transportation corridors and the continued construction of petroleum and chemical facilities whose construction began in the Soviet era.
account for over fifty percent of expenditures in 2001 and 2002 (Table 1). Expenditures appear to be volatile as the average absolute annual percentage change in expenditure levels between 2001 and 2002 was 66.67%. Such volatility obviously undermines the ability of line departments to conduct analysis, plan programs, and conduct business in a systematic fashion. At the local level, education and public health expenditures account for approximately forty-seven and fifty percent of expenditures for 2001 and 2002. Given that over one-quarter of the Republican budget is devoted to the financial support of local governments, we can assume that the local governments are unable to raise sufficient revenues to fund their desired (or required) level of expenditures. Expenditure volatility is significantly less at the local level relative to the Republican level of government, with an average absolute annual percentage change in expenditure levels between 2001 and 2002 of 36.33%. In 2001, only seven local governments were donors to the budget of Bashkortostan, the other 55 local governments were recipients.

Table 1
Structure of republican and local expenditures in the Republic of Bashkortostan in 2001 and 2002

<table>
<thead>
<tr>
<th></th>
<th>Republic 2001</th>
<th>Local 2001</th>
<th>Republic 2002</th>
<th>Local 2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government</td>
<td>3.0</td>
<td>5.1</td>
<td>2.9</td>
<td>4.9</td>
</tr>
<tr>
<td>Agriculture support</td>
<td>5.3</td>
<td>2.8</td>
<td>7.7</td>
<td>1.3</td>
</tr>
<tr>
<td>Industry &amp;Construction</td>
<td>34.7</td>
<td>8.5</td>
<td>22.3</td>
<td>5.8</td>
</tr>
<tr>
<td>Housing &amp; Communal services</td>
<td>0.3</td>
<td>14.6</td>
<td>0.5</td>
<td>10.6</td>
</tr>
<tr>
<td>Education</td>
<td>2.6</td>
<td>30.0</td>
<td>2.8</td>
<td>40.9</td>
</tr>
<tr>
<td>Culture</td>
<td>1/0</td>
<td>2.8</td>
<td>1.3</td>
<td>3.2</td>
</tr>
<tr>
<td>Public health</td>
<td>4.4</td>
<td>17.1</td>
<td>7.1</td>
<td>19.8</td>
</tr>
<tr>
<td>Public security</td>
<td>1.7</td>
<td>2.9</td>
<td>4.2</td>
<td>0.3</td>
</tr>
<tr>
<td>Communications &amp; Roads</td>
<td>11.3</td>
<td>4.1</td>
<td>14.6</td>
<td>3.2</td>
</tr>
<tr>
<td>Public assistance</td>
<td>2.7</td>
<td>8.1</td>
<td>3.2</td>
<td>9.6</td>
</tr>
<tr>
<td>Support of other governments</td>
<td>29.7</td>
<td>1.7</td>
<td>25.7</td>
<td>0.0</td>
</tr>
<tr>
<td>Other expenditures</td>
<td>3.3</td>
<td>2.4</td>
<td>7.7</td>
<td>0.3</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100.0</strong></td>
<td><strong>100.0</strong></td>
<td><strong>100.0</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

(All figures in percent)

Source: Author’s computations on the basis of the Laws on execution of the budget of the Republic of Bashkortostan for 2001.

The financial needs of the 62 local governments in Bashkortostan also vary significantly. In terms of local tax revenue for 2001, the Mishkinski rayon collected the least – approximately 10.5 US dollars per capita – while the Krasnokamski rayon collected the most, raising approximately 165 US dollars per capita (Figure 1). The inclusion of grants tied with local revenues appears to marginally mitigate the horizontal disparity between the local governments. In total, grants, transfers,
and additional support raised the per capita revenue of the poorest local governments by approximately 108 US dollars.

**Figure 1**
Per capita revenues of the local governments with different types of financial support in 2001 (US dollars/person)

![Graph showing per capita revenues of local governments](image)

Source: Author's computations on basis of the RF MoF data.

Bashkortostan’s horizontal equalization policy is shown in Table 2. Revenues before equalisation show significant variation, as the poorest local government’s revenues were approximately one-sixteen of the richest local government’s and the coefficient of variation is 0.67. After tied revenues and transfers and additional expenditure support were given to local governments, the disparity was reduced from 2 to 1 with a coefficient of variation of 0.16. Such data show that Bashkortostan’s government is actively working to address the horizontal disparities between local governments but that work remains to be done.

---

6 The coefficient of variation shows the degree to which the data are spread. Numbers closer to zero reflect little variation while numbers closer to one suggest a high degree of variation. The coefficient of variation was calculated by dividing the standard deviation of a data series by its mean.
Problems of Overcoming Perverse Fiscal Incentives for Local Governments

Table 2
Horizontal equalization in the Republic of Bashkortostan

<table>
<thead>
<tr>
<th></th>
<th>Revenues before allocation of tied transfers</th>
<th>Revenues, tied transfers included</th>
<th>Revenues, tied and equalizing transfers included</th>
<th>Total revenues (with compensations of mandates)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Min value</td>
<td>11</td>
<td>41</td>
<td>74</td>
<td>108</td>
</tr>
<tr>
<td>Max value</td>
<td>165</td>
<td>170</td>
<td>177</td>
<td>217</td>
</tr>
<tr>
<td>Mean value</td>
<td>54</td>
<td>76</td>
<td>115</td>
<td>151</td>
</tr>
<tr>
<td>Coefficient of variation</td>
<td>0.67</td>
<td>0.38</td>
<td>0.17</td>
<td>0.16</td>
</tr>
</tbody>
</table>

Per capita revenues in U.S. Dollars before and after Equalization 2001. Source: Author’s computations based on RF MoF data. Per capita revenues rounded to the nearest decimal.

Budget Incentives and Local Governments

Current intergovernmental relations within Bashkortostan suffer from all the shortcomings inherent to the majority of the Russian regions. These shortcomings include lack of transparency, political negotiation of the allocation of financial support from regional to local governments, and instability in tax sharing arrangements. The consequence of these shortcomings has been the absence of budget incentives for local governments to promote economic development and collect taxes in their territory. Only about a dozen Russian regions have introduced formula-based systems of financial support allocation.

There are three main principles used in allocating resources in Bashkortostan (RB MoF, 2002). First, the Bashkortostan government tries to provide every local jurisdiction with funds to cover minimal expenditure needs. Second, localities’ expenditure needs are computed according to the number of public service customers – for example, the number of children who are to receive children’s allowance. Third, localities’ expenditure needs requiring public infrastructure are computed on the basis of actual expenditure needs of this infrastructure.

These principles promote perverse incentives. Local governments submit more expenditure needs than they actually require given their infrastructure in order to receive more funding from the Bashkortostan government. Local governments also try to increase infrastructure through negotiations and personal informal contacts with the regional government in order to be able to demand additional funds later.

The Bashkortostan government concentrates mostly on overstated expenditure needs. Until 2002, financial support was based mostly on local governments’ estimations given to the RB MoF as well as on the previous year’s actual expen-
ditures (corrected by coefficients reflecting changes in the economy and legislation). The Ministry of Economy also collected information about all expenditure needs of all organizations in Bashkortostan which provide public services. Many of these needs are provided for in expenditure norms as outlined in laws, ministerial instructions and other federal government regulations. Every school, hospital and other institution has a “passport” with information about the institution’s facilitates and premises, electricity and heat needs, and other needs. Since 2003, MoF of RB has been trying to estimate local government expenditure needs using those passports and expenditure norms.

In the recent years, upper level Bashkortostan officials have spoken about the low efficiency of local finances and the necessity for local governance development and reform. Yet, they focus on administrative measures and do not pay attention to local government budget incentives. The lack of consideration of such incentives is striking given the redistribution of revenues toward the Centre. Bashkortostan’s consolidated budget received at the end of the 1990s only two-thirds of its total revenues. By 2002, the local budget only benefited from about half of collected revenue and by 2003, this share is expected to be 37%. Presently, given Bashkortostan’s diminished share of tax revenues, the government is especially focused on ways of increasing revenues (RB MoF, 2002). Increasing non-tax revenues provides one way of compensating for the decreasing tax revenues, as the share of non-tax revenues is expected to rise from 9% of the total revenues in 2003 to 11.5% in 2005. The intensification of tax collection provides another way (especially in areas where tax rates are reduced) as does increasing the efficiency and effectiveness of public infrastructure.7

Figure 2 and Figure 3 show the dynamics of changing tax rates from 2000 to 2003 for the local governments of the Krasnokamsky rayon and the city of Ufa. EPT, PIT, and the rate of real estate tax allocated by upper governments to local governments changed considerably from 2000 to 2002.8 EPT, PIT and hydrocarbon excises considerably influenced local revenues because they comprised the largest shares of Bashkortostan’s tax revenues. In Figure 4, hydrocarbon excises constitute the largest part of mineral resource payments. The EPT, PIT rates, real estate tax rates, and the share of hydrocarbon excises assigned to the local gov-

7 The government of Bashkortostan has also been paying attention to improving local governments budget incentives for promoting economic development. The Main Principles of Calculation and Provision of Financial Support of Local Governments in 2003 (RB MoF, 2002) says that “intergovernmental relations in 2003 are based on the conservation of the current system of expenditure distribution between the republican budget and the local budgets...that encourages local governments to develop the local tax base”.

8 Local government’s shares of hydrocarbon excises, city land and agricultural land taxes comprise roughly a tenth of total tax revenue so that they would be comparable with other tax rates in the figures.
ernments in 2003 are the same as in 2002, while the local shares of land taxes in 2003 are only slightly different from the ones in 2002. Such stability testifies to Bashkortostan’s (as well as 60 other upper level local governments’) ability to stabilize the tax system.

Figure 2
Changes of tax rates assigned to the Krasnokamskii rayon of Bashkortostan


Figure 3
Changes of the tax rates assigned to Ufa

Federal Recommendations on Overcoming Perverse Budgetary Incentives

The Russian Ministry of Finance Recommendations suggests that the regions should clearly distribute responsibilities between the regional and local levels. Regional governments should also determine the relative importance of equalising budget provision with revenues, the provision of direct financial incentives for local governments, and an active regional government economic policy (to be carried out with the help of tied subsidies in a framework where local governments must compete for these grants and propose their own investment programs on a competitive base).

The Federal Government proposes overcoming perverse budget incentives by allocating resources using a formula-based scheme – in line with expert recommendations from Georgia State University and the World Bank (Martinez-Vazquez and Boex, 2001). Such a formula-based scheme would consist of three elements. First, equalization of the municipalities’ fiscal capacity should depend on the size of the taxable resources rather than previous tax collection, taking into account the degree and the structure of the territory’s economic development. Table 3 presents several ways of equalisation. Second, municipality expenditure needs should be calculated based on the number of public service users while considering local peculiarities accounted for by distinctions in public service demand and costs of budget services. Third, non-tied financial support should

---

9 Yet, the 1998 Russian Budget Code has already taken into account the distribution of expenditure responsibilities (articles from 84 to 87). Questions remain about whether there is room for further delimitation of responsibilities by the regions and whether such a distribution would correspond to three principles of delimitation mentioned in point 2.4 of the Recommendations, namely the principle of territorial correspondence of benefits, the principle of economies of scale and the subsidiary principle.
be allocated among localities using a uniform technique. Appendix I describes the formula which can be used for computing the fiscal capacity of local governments.

**Table 3**

Equalisation methods proposed by the Ministry of Finance Recommendation

<table>
<thead>
<tr>
<th>Method</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Absolute equalization</td>
<td>Complete finance of the gap between fiscal capacity and the expenditure needs calculated according to the number of public service users.</td>
</tr>
<tr>
<td>Partial equalization</td>
<td>Partial finance of the gap between fiscal capacity and the expenditure needs.</td>
</tr>
<tr>
<td>Relative equalization</td>
<td>Proportional reduction of the gap between per capita budget provision in each locality and a pre-defined level (such as the average level of the per capita budget provision in the region).</td>
</tr>
<tr>
<td>Combination of partial and relative equalization</td>
<td>The use of partial or/and relative equalization in combination with provision of a certain minimal level for the least provided for localities.</td>
</tr>
</tbody>
</table>

Federal policy for allocating resources among the regions and the Russian Ministry of Finance Recommendations are roughly the same. The only difference is that the Ministry of Finance uses GRP for estimating regional fiscal capacity, which is impossible for localities. It recommends the use of major tax bases for estimating local government fiscal capacity. During the last three years, the federal government has used relative equalization (as defined in Table 3) with ensured provision of a certain minimal level for worst off localities.

The results for the budget allocation rule described in Appendix I and the data of the local governments of Bashkortostan in 2001 can be used to compare disparities between local expenditure needs computed according to the number of public service users and the expenditure needs of the current infrastructure. Using the Ministry of Finance formulas based on the Recommendations, I calculated the difference between the normative expenditure needs (computed according to the number of public service users) and the actual local government expenditures in 2001. These actual expenditures include localities’ own revenues as well as all kinds of financial support. As

---

10 Given the difficulty in repeating the Ministry’s expenditure needs computations for infrastructure, I relied on the fact that the Bashkortostan government equalizes local government revenues up to the level of minimal expenditure needs and according to the current infrastructure. Actual expenditures of the executed budgets of the previous years can thus be used to estimate the normative expenditure needs of the infrastructure.
the difference in total expenditures among local governments is large, only relative values of expenditure differences are compared and the ratios of these differences to the total actual local government expenditures in 2001 are shown in Figure 5.

Figure 5
Balance of the normative expenditures and actual expenditures of the 62 local governments of Bashkortostan in 2001, taken as a relative value

Source: Author's computations on the basis of the RF MoF data.

Figure 5 shows that deviations between local governments are considerable. The standard deviation is 0.14 whereas if infrastructure was allocated proportionally to the population, the standard deviation would be zero. One third of local governments have needs in excess of actual expenditures and two thirds exceed normative expenditure needs. 25 local governments have deviations of more than 10% while 10 localities deviate more than 20%. The Krasnokamsky rayon deviates most, as actual expenditures exceeds normative expenditures by 44%. On the contrary, the city of Meleuz had actual expenditures that were 35% less the normative expenditures.

Figure 5 shows that full implementation of the Russian Ministry of Finance’s Recommendations would cause under-funding of schools, hospitals and other infrastructure projects in the majority of local Bashkortostan jurisdictions. A hospital in one rural rayon may deliver health services to the populations of neighbouring rayons and if expenditure needs are calculated based on the rayon’s public service users, the hospital would not receive funding enough to deliver an adequate level of service. The lack of local government fiscal capacity for delivering educational services, combined with the geographical dispersion of schools and hospitals (a legacy of Soviet times), accounts for Bashkortostan’s MoF resistance against the federal recommendations.

A new model of inter-governmental relations in Bashkortostan would provide financial support among localities on a formulaic basis. Formula based al-
locations should create proper budgetary incentives without causing under-funding of public service providers. This formula gradually merges with the formula described in the RF MoF Recommendations in which localities receive financial support on a per capita basis. The re-organisation of infrastructure work and financing (for schools and hospitals) is needed: local governments should reach an agreement among themselves on joint financing of schools and hospitals for services provided across jurisdictions.

The other side of establishing “good” budget incentives consists of fixing legislatively the long-term basis for sharing taxes throughout Bashkortostan, thereby allowing localities to predict their incomes. The Russian Ministry of Finance Recommendations suggest that regional governments should assign revenue sources to local governments for 3 years instead of the current practice of yearly changes. Such legislatively defined stability is difficult given that the tax proceeds, which the regional government allocates to local governments, are federal taxes. The federal government regulates not only the sharing of federal taxes, but also some regional and local ones. As seen in Figure 6, sub-national rates and shares of the main taxes – EPT, PIT and VAT – were changed rather frequently and to a considerable extent during the last ten years. Instability in tax sharing between the federal and regional governments caused annual fluctuations in regional and local budget revenues, which stabilised only during the last three years.

**Figure 6**

Changes of EPT rates and subnational shares of PIT and VAT

![Figure 6](image)

*Source: Author’s computations on basis of the RF MoF data.*

Other taxes and excises, which influence sub-national revenues, still exhibit significant fluctuation. In 2003, new changes in taxes were already introduced (such as the road tax was changed to the transport tax). Sales tax is to be abolished in 2004, and the VAT rate is to be reduced from 20% to 14%. If local reve-
nues are not influenced by the changes in VAT, abolishing the sales tax will greatly destabilise local finances, as this tax provides a considerable share of locality’s own revenues. In 2001 this sales tax equaled 6% of Bashkortostan own revenues.

**Conclusions and Recommendations**

Only recently have administrative incentives been surplanted by fiscal ones as local governments try to improve tax administration. The “Programme of reforming the state (government) finances in Bashkortostan” adopted by the decree of the Government of Bashkortostan No. 8 of January, 13, 2003 is a step in this direction. For the first time, plans are made for reforming intergovernmental relations in the Republic on the basis of the Russian Ministry of Finance’s Recommendations while “combining the elements of equalization (levelling) expenditure needs and stimulating the growth of tax potential of the regions and cities.” Yet, the decree remains a statement of principles and fails to provide a concrete plan. Table 4 provides some concrete measures based on the findings of this paper.
### Table 4
Summary of Findings and Recommendations

<table>
<thead>
<tr>
<th>Finding</th>
<th>Recommendation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Russian Federation MoF suggest that the subjects of the Federation should neatly discriminate the expenditure responsibilities between the regional government and local governments</td>
<td>Requires local discretion as federal regulation too detailed.</td>
</tr>
<tr>
<td>New federal law on local self-government (16 September 2003) regulate the distribution between the two levels of local self-government very minutely</td>
<td>Budget Code for Bashkortostan should define way of forming the republican funds for equalization of localities, define long-term assignment of tax shares, and describing the formulae used to allocate financial support of local governments.</td>
</tr>
<tr>
<td>Not very considerable discrepancy between the expenditures of the majority of local budgets according to the new methodology and the actual ones they had had in the corresponding years.</td>
<td>switch over to the formalized scheme of intergovernmental relations proposed in this paper</td>
</tr>
<tr>
<td>Changing tax rates and distribution norms makes it difficult to plan</td>
<td>Stop yearly changes in tax rates and widen the discretion of regional governments in taxation policy. Transfer part of the rights on tax introduction, assigning their rates and norms of splitting them from federal government to regions.</td>
</tr>
</tbody>
</table>

11 For further elaboration, see the original paper presented at the NISPAcee conference.

12 Tax stability can be promoted by regulating tax changes in the Federal Budget Code or in a special constitutional act like in the Italian system where any tax system change should be made no more than once in three years. A year or two should also pass before the decision on the change is adopted by the Duma and implemented.
References


Appendix I: Formula for Computing the Fiscal Capacity of Local Governments

The average representative rate of tax can be calculated as shown in equation (1) as the actual tax collection of a particular tax in a particular locality. If $R_{ij}$ represents the actual tax collection of tax $j$ in locality $i$, and $t_j$ represents the average representative rate of tax $j$, then

$$t_j = \frac{\sum_{i=1}^{L} R_{ij}}{\sum_{i=1}^{L} R_{ij}}$$

(1).

If the tax potential for locality $i$ is defined as $FC_i$, then this potential can be defined as the sum of the tax base of tax $j$ in locality $i$ ($B_{ij}$) over the number of taxes ($K$) and localities ($L$).

$$FC_i = \sum_{j=1}^{K} B_{ij} t_j$$

(2).

For computation of the index of budget expenditure, the RF MoF Recommendations suggest equation (3), namely

$$IBP_i = \frac{N_i^{edu} E^{edu} + N_i^{health} E^{health} + N_i^{social} E^{social}}{N} + E^{other}$$

(3).

In equation (3), $N_{edu}^i$, $N_{health}^i$, $N_{social}^i$ are the numbers of consumers of educational, health, and social services in locality $i$, $E_{edu}$, $E_{health}$, $E_{social}$ are expenditures for educational, health, and social services and the others, $N_{edu}^i$, $N_{health}^i$, $N_{social}^i$ are the numbers of consumers of educational, health, and social services in Bashkortostan. $N_i$ is the number of inhabitants in locality $i$, while $N$ is the total inhabitants of Bashkortostan. Instead, as a basis for computation of financial support, the RF MoF Recommendations propose to use per capita budget provision calculated by equation (4).

$$BP_{per cap} = \frac{FC_i}{N_i * IBE_i}$$

(4).
Many areas in Eastern Europe have moved rapidly toward privatization and local self-government. Today, the formal transition is nearly complete in many areas but concerns remain about the problems of adjustment to the new economic order. The common problem faced by local public administrators throughout Eastern Europe is how to make the new paradigm work within a new constitutional framework.

Introduction

The devolution of power has led to a substantial number of implementation problems which fall on the local public sector; and the capacity of local level administrators may be lacking to administer a constantly growing body of laws and policies in a dynamic environment in which previous laws and experience may be irrelevant or may be non-existent. Fiscal problems – namely the mismatch between actual and potential revenue sources and growing expenditure requirements – also plague not only the national governments but also their localities. How can Eastern European local public administrators meet the challenges of decentralisation (increased local responsibil-

1 I am grateful for the assistance of Natasha Ryzhavoka, Oleg Batig, Alexander Alexin, Eugenia Firsova and Konstantine Efremov for translating Russian language documents and to Dr. Carole Neves of the National Academy of Public Administration for making the original project possible through Chemonics and its local administrator in Russia, Robert Sanders.

2 The process is nearly complete in the sense that Eastern European countries have local charters creating functioning local democratic governments and a legally institutionalised private market economy protected against state interference. As in any dynamic, democratic society, however, there is a constant process of change and readjustment. For some impressionistic and thoughtful views of how these processes have gone in Russia as a whole, see Nikiforov (1994), Sukhotin (1994), and Bim (1994).
ity, pressures and accountability) when revenue requirements cannot be met, even though the citizens’ demands rise for public service delivery and accountability?

This paper focuses on the impact of devolution on the rayon (county), its newly acquired responsibilities and the legal and budgetary constraints that define its ability to conduct these responsibilities. Unlike other approaches to addressing this dilemma, this paper compares the devolution of powers in Russia (using a specific case study) with the administrative powers of comparable local governments in the United States and the associated budgetary impacts. By so doing, it is hoped to place the plight and privileges of these governments in an international context for better appreciation and in search for probable solutions.³

The Devolution of Infrastructure Responsibilities

Changes in size and number of local governments are not new in Eastern Europe. Maltese (1992) traces such changes, for example, in Estonia from 1950 to 1992 when devolution was widespread in Eastern Europe. A common administrative unit used throughout the devolution process in Eastern Europe has been the rayon (an administrative, budgetary, economic and political unit that is similar to a county in the United States). Every oblast (the Eastern European analogy to a state in the United States federal system) contains several counties – and each county (rayon) is composed of both incorporated and non-incorporated rural and urban areas. Devolution involves the shifting of responsibilities and accountability from the federal level to the state level – and ultimately to the rayon (county) level and to its composite units.

In Russia, as elsewhere, the current infrastructure of the rayon includes the roads, schools, boilers, water and sewer systems and hospitals for which the government is responsible. This infrastructure was acquired in 1991 when privatisation turned all state farms and industrial enterprises into privately owned businesses and assigned all their social assets (housing, boilers, water and sewer, roads, schools, and other assets) to the local governments. As a consequence of such privatisation, local budgets quickly became responsible for a variety of social assets – many of which required maintenance and replacement because of years of deferred maintenance and dis-investment under Soviet rule. An unintended consequence of decentralisation and devolution was to increase the size of local government bureaucracy, to enlarge the scope of local government responsibili-

³ This paper draws heavily from Bryce (2000) and extends upon the original paper by considering more than one single local government and extending the analysis beyond in one period (1992 which was the date of the original study). This paper also expands on one of the policy recommendations. Hence, the numerical data presented in this study are not used to describe current events, but to illustrate the unanticipated budgetary consequences of devolution at the earliest recorded period in the transition.
ties (to include the maintenance of the newly acquired infrastructure), to respond to the unleashed pent-up demands of local citizens, and to increase the need for locally generated revenues in a time when the privatisation of state-owned enterprises reduced their potential as revenue sources. This unplanned and sudden transfer of social assets – without off-setting increases in productive revenue sources and within an un-chartered political environment – set the foundation for the problems facing local public administrators. The basic challenge for the local budgets is therefore to find ways to absorb newly devolved powers and responsibilities within tightening budget constraints and increasing demand.

**Local Government Powers and Responsibilities and the Oblast as Designator and Guarantor**

Local government within a federal context is best understood, not only by looking at the government itself, but also by looking at its relationship with the federal and state units higher up in the administrative hierarchy. The Federal Law on the General Principles of Self-Administration in the Russian Federation (1995) says that local self-government is an expression of the power of the people and is fundamental to the Russian constitutional system. The second clause of chapter 1 of the Law declares that local self-determination is recognized and **guaranteed** to all citizens of the federation and must be guaranteed by all levels of government.
### Figure 1
Fiscal Powers Devolved to Local Government and Retained by Federal Government in the Russian Federation

<table>
<thead>
<tr>
<th>Oblast and State Measures guaranteeing Local financial independence</th>
<th>Powers retained by the federal government</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. The assignment of specific revenues sources to the local government so that it can meet minimum expenditure requirements. ⁴</td>
<td>1. The right of the federal government to establish minimal social standards for all citizens and to assure that local budgets provide for them. These standards cover health, food, nutrition, education, and so on. ⁵</td>
</tr>
<tr>
<td>2. The guarantee that if the minimum local expenditures cannot be met by the assigned revenues sources, both the federal and oblast governments will transfer revenues from their own budgets or the budgets of other subject governments.</td>
<td>2. The right to adopt regional economic development programs for local governments.</td>
</tr>
<tr>
<td>3. The guarantee that in making up fiscal gaps, no importance will be given to the fact that in prior years the local government may have had a surplus. Past surpluses cannot be seized or encumbered by the federal or oblast governments or used to reduce payments.</td>
<td>3. The right to coordinate and approve local government budgets partly to assure conformance with federal laws, and</td>
</tr>
<tr>
<td>4. A promise that in addition to assigning revenue sources, the federal or oblast government may reduce their share of revenues from taxes collected by the local government.</td>
<td>4. The right to transfer some federal functions to local governments (with compensation) and to monitor and control compliance.</td>
</tr>
<tr>
<td>5. A requirement that local governments must be compensated for any federal or oblast mandates that increase local expenditures.</td>
<td></td>
</tr>
<tr>
<td>6. An acceptance that local governments are only responsible for implementing mandates of higher levels of government to the extent of compensation received.</td>
<td></td>
</tr>
</tbody>
</table>

---

⁴ The guarantee is specifically to meet the social minimum requirements (such as the minimum standard of living).
⁵ State Minimum Social Standards for Defining Norms for State and Local Budgets, July 3, 1996. These norms are easily verifiable.
Rebuking the old Soviet model, the 1995 law gives previously unheard of discretion to local authorities to develop their own budgets, to determine sources of revenues, to determine expenditure patterns and promises that the oblast (the state-level government) and the federal government will guarantee local financial independence specifically through six measures shown in Figure 1 (a). Such strong guarantees from the federal government has no precedence in Russia and no counterpart even in the United States (although in 1996, the U.S. Congress passed a law applying only to the federal government that is similar to Item 5).

The 1995 Russian federal law also retains strong powers for the federal government including the four measures shown in Figure 1 (b). While these are ostensibly powerful guarantees, these expressly retained powers led to constant approval-seeking deference to the federal government by local public administrators and policy makers that often led to (but not always warranted) a dampening of budgetary initiatives and a “why-bother” attitude. As one local official stated: “What can autonomy mean if you are always afraid of annoying your creator, benefactor and guarantor?”

In Russia, the oblast (or state) is both a designator of responsibilities and, at least on paper, a guarantor of fiscal resources to meet these responsibilities. Unfortunately, the reality is otherwise. The Oblast of Volgoda, for example, fully respecting federal law, guarantees home rule to the citizens of its rayons. It requires local citizens to adopt charters describing the structure and procedures of their local governments, as well as the ways they guarantee citizen participation in voting and in policy-making, the openness of government, the equality of all citizens, and the determination of the status and removal of locally elected officials. Federal law specifies that an oblast can reject a local charter only if it violates the laws of the federation or of the oblast.

With these powers, a rayon is analogous to a home-rule county in the United States. Its powers, budgetary and otherwise, are broad and unrestricted by size, income or other method of classification. In the rayon, the citizens are guaranteed

7 Ibid., See the Chapter “Federal Bodies Powers in Local Self-Administration,” Clauses 4-8, for the points being enumerated here.
8 In the United States local governments are creatures of the state and their powers are derived from state law (this is the familiar Dillon Rule). The federal government does not guarantee the existence of or the financing of the local government. This is not the case in democratic Russia.
10 In the United States, each state decides the type of charter to issue. Some charters are general (the state may issue a prototype which individual jurisdictions may adopt). A state may also issue a specific charter which applies only to a specific jurisdiction. The state may issue different types of charters for different types of localities according to some variable which is usually population size; and, finally, it may issue a broad charter (called home rule) to very large and special cities – such as New York City.
the right to form any kind of government they think best, given their needs, ethnic, historic, geographic and other characteristics, as long as they do not violate certain principles (generally focusing on civil rights, openness, universal suffrage, and accountability).11

The rayon is, however, specifically assigned responsibilities for financing and managing social assets such as roads, schools, and the other assets previously mentioned. Financing of these must be incorporated in the local budgets. At the same time, local fiscal independence is guaranteed by the oblast in that the local government can independently set up, approve, and implement its budget and reallocate resources as it sees fit; the oblast may not attach or discount surpluses or additional revenues resulting from local tax increases; and the local government is guaranteed a sufficient level of assigned revenue sources, revenue sharing or monetary transfers to balance its budget.12

But what do these guarantees of local fiscal independence mean within the current context? Local public administrators explain that under the Soviet system, the central government always provided enough money to cover all local expenditures (all of which were authorized and mandated by the central authority). No budgetary discretion at the local level was allowed, even when the mandated and fully funded expenditures were obviously not socially optimal or even wasteful. Today, the local public administrator has discretion over programmes, projects and revenues with guaranteed oblast and federal funding only for expenditures mandated by them. Yet, even dedicated revenue sources never yield enough revenue to cover either discretionary or mandated expenditures. Moreover, local governments have little confidence in guaranteed federal or oblast payments given that both of these levels of government run payment arrears for benefits to the military, local veterans, teachers, and families claiming child care benefits. As one official put it, “now we have discretion but no money to exercise it”.

Local Charters: Conflicts between Efficiency and Accountability

The aspiration for full and local accountability may conflict with the need for economic efficiency. The Cherepovetz rayon, for example, is divided into 26 geographic rural administrations, each headed by an administrator elected by village leaders but who, under the proposed charter, is appointed by the chief administrator of the rayon with the approval of the village population. The rural administrator serves as an ombudsman between the rayon government and

12 Ibid., Clauses 82-103, especially Clauses 86, 91, 92 and 100.
the village population and as a rayon extension agent in furthering the local population's educational, business and recreational interests. Each administrator can impose special taxes and receives 100% of the income tax revenues the rayon collects in his or her area.\textsuperscript{13} The rural administrator is free to allocate these funds as deemed best for the local population. While the concept of zoning is not defined, the rural administrator may also zone land within his or her area and distributes land at no cost for activities such as the building of dachas.

Many of these areas are small. In 1992, 73\% of these areas had less than 2000 residents, just under half have no more than 1000 inhabitants, and none as many as 10,000 people. Most of these areas are too small for efficient public service provision. To local public administrators, this structure is politically advantageous because it brings local self-government to a micro level. Such structures, however, may be very inefficient from a budgetary perspective since many rayons have their own small inefficient assets such as boilers.\textsuperscript{14}

Given such inefficiency, a case may be made for the consolidation of rayons.\textsuperscript{15} Rayons are different in natural endowments, in population size, in wealth, in proximity to the central city, and in the nature of their development capabilities. Currently, there is a strong emphasis, among local government officials surveyed, to treat all these places “equally” (consistent with the Soviet model). Yet, equal treatment may be fiscally inefficient as the net marginal social benefits per dollar spent on similar investments cannot be the same in each region given their different endowments. Possible economies of scale also could increase the efficiency of the concentration and sharing of certain social infrastructure assets – thus the consolidation of rayons at least along service lines.

**Budgetary Deficits and the Compliance-Enforcement Nexus**

Deficit finance increases the budgetary strains of devolution of responsibilities, decentralisation of powers, The budget of a rayon, for example Cherepovetz, is a unified capital-operating budget and is not required by any level of law to be balanced. A deficit may be (and commonly is) projected for the current year, unlike in the Soviet system where both the expenditure and revenue sides of the local budgets were determined locally within the constraints and guarantees discussed earlier in this paper.\textsuperscript{16} A budget passed by Cherepovetz’s Legislative Assembly during the time of this study showed an expected expenditure level

\textsuperscript{13} The rayon has no revenue equalization powers.

\textsuperscript{14} Maltese (1992) gives similar data for Estonia and compares it with countries such as Finland and Sweden.

\textsuperscript{15} Federal, oblast, and rayon laws provide for area mergers and consolidations.

\textsuperscript{16} In the United States, most local operating budgets are required by law to be balanced, although this is not true of capital budgets and the separation of these two budgets is common.
of 75,371,100,000 could exceed by 13% the expected revenues at 95,300,700,000 rubles.\textsuperscript{17}

In the past, projected shortfalls have been met by either cutting capital expenditures (in particular, a hospital and a day care center), reducing hours at facilities (such as clubs), assistance from other levels of government, paying current wages out of reserves (for teacher vacation pay), and delaying payment of current liabilities (including wages of other rayon workers). Wages arrears have been known to accumulate for between 4-6 months.\textsuperscript{18} Local administrators nearly unanimously agree that non-payment of taxes and user frees principally causing shortfalls and difficulties in implementing a local budget. Revenue sources may be dedicated, but they yield little because people commonly do not pay. Tax and fee evasion and avoidance plague even the national government (McKay, 1996).

For households, under the current system in Eastern Europe, there are free-rider problems generally associated with the pricing of public goods and the inability to exclude users. To illustrate, because heat is centrally provided and there are no individual meters, it is impossible to cut-off individual households or to know how much heat each unit uses. When the central heating system is on, everybody gets heat; when it is off nobody gets heat. To approximate household heat consumption in order to determine a fee, the Russian Academy of Science calculates an “average” household usage. Average household usage is multiplied by an average cost of production for all 25 boilers in the rayon and by law only 30\% of this amount can be charged (and this 30\% must not exceed 15\% of family earnings).\textsuperscript{19} A “free rider” problem exists because non-payers can not be cut off due to lack of individual unit control and a legal guarantee of heat which eliminates incentives to pay. As user fees are not based upon actual use, there is no incentive to economize and the social minimum provision of heat may lead to costs well above the social optimal.

Even if tax payers wanted to pay for social services, they are often unable to pay due to pay-roll tax arrears. Individual households are generally in arrears because their employers, including the local government, are in arrears in paying both employees’ salaries and in paying amounts due the government. Most large

\textsuperscript{17} The profit tax is the principal source of revenues (34\%) while the principal expenditure (20\%) is for housing and utilities – followed by education (19\%). About 8\% of all expenditures go to various forms of agricultural subsidies and subsidised loans to business (usually given at 25\% of the central bank interest rate amounting to an effective interest rate of between 40-50 percent).

\textsuperscript{18} A study of 1300 U.S. cities, roughly the size of Cherepovetz, and their adjustment to economic crisis shows the importance of cutting back capital expenditures (67\%) and cutting back in services (32\%). Only 25\% of the cities chose to postpone wage increases. Holding wages in arrears is not a common option (Bryce, 1979).

\textsuperscript{19} Furthermore, user fees are set by current federal law to cover less than 100\% of total costs. Even if user fees were collected, subsidies would still be required.
firms are currently operating at a loss and have limited cash flow, so they postpone wage payments; they are also allowed to postpone withholding taxes until salaries are paid. Such tax payments are required even for businesses operating at a loss, because revenues rather than profits are taxed in Russia.

Private sector non-compliance with tax payments reflects a number of problems. For small firms, many sidewalk, mobile enterprises, and underground operators are able to elude tax collectors altogether. For larger firms, they need significant increases in investment if they are to be competitive in foreign markets and in domestic markets. Yet, greater investments increase depreciation allowances and thereby reduce tax liabilities and receipts over the depreciable life of the assets or the applicability of the tax credit used as an investment incentive. In addition, non-compliance by major firms often reflects their strong bargaining positions. Assets seized for tax non-payment is unlikely as the government will probably not find private buyers for the firm’s outdated equipment and plant (and post seizure re-nationalisation would likely be politically unpalatable). Even if such seizure without a pre-packaged sale occurs, local government cash flow problems could be accentuated, as the government (at least temporarily) would have to operate outdated plants and equipment at high maintenance costs for a business presently operating at a loss. Lest there be involuntary servitude, the government would also have to pay employee wages and benefits during its tenure of operation.

**Limitations on Increasing Taxes and Fees, Debt Financing, and Reducing Expenditures**

Deficit reduction through increased taxes and fees is likely to be a weak remedy given the current levels of non-compliance. Increasing taxes and fees would not significantly increase revenue and would only penalize those who currently comply with tax payments. Indeed, a reduction in taxes and fees is more likely to yield greater compliance if tax rates are realistically tied to taxpayers’ ability to pay or to benefits received as rampant noncompliance may signal structural problems

20 The inability to pay an employee may be unrelated to the firms’ withholding taxes. The firm could be required to calculate withholding taxes and transmit them on a timely basis, even though the employee has not yet received cash. The firm would then be in debt only for payments to employees. Yet, given a cash flow problem and a choice between paying the government and paying employees, paying employees may be preferred by all parties (including the rayon). Therefore, paying government payroll taxes usually does not occur when the payroll cannot be met.

21 Plant closures would be politically difficult because these firms disguise unemployment (keeping the official rate of unemployment low) and since these firms are often employee-owned, a closure or a seizure may be reflected by discontentment at the local polls.
with the tax system. Higher tax rates lead to greater incentives to avoid taxes. Moreover, because incomes are so low, higher tax rates run the risk of violating Russian laws which limit taxes and fees to about 30% of income.

Increasing user fees to levels which allow for complete cost recovery is another option. Yet, given depreciation and obsolescence of most of the boilers and other equipment used to provide utilities, the costs to be recovered would be relatively high replacement costs as opposed to low historical or acquisition costs. Even if cost recovery covered replacement plus operating costs, such costs would probably not be within the financial capacity of users. The subsidizing of utility use may be required for some time.

The issue of debt is also unlikely to be a way of generating local revenue. Many local jurisdiction charters do not provide for the issuing of long-term debt (in the form of bonds) or short-term debt (in the form of tax anticipation notes) as US counties do. Cherepovets’s charter only allows bank borrowing, and with interest rates ranging from 120-200%, even bank borrowing is infeasible. Given deficit spending, as well as delays in payments and in receipts, low local government bond credit ratings would make the cost of borrowing prohibitive. For all practical purposes, therefore, these jurisdictions are shut out of the debt market.

In spite of their budgetary independence, substantial limits remain on local discretionary spending. Russian federal, oblast and rayon laws mandate that rayon budgets cover certain minimum norms – including numerical norms for food, nutrition, health care, libraries, ambulances, orthopedic services, clubs, social help centers, transportation and wheel chairs for invalids, rehabilitation centers, clinics, clothing, orphanages, and schools. These norms are also defined for specific population characteristics such as age, sex and type of handicap. Over time, these costs have been escalating throughout Russia (Alm and Sjoquist, 1995). Yet, as previously mentioned, federal and oblast laws mandate that if the rayon is unable to meet these social minimums, the federal or oblast government will contribute from their own budgets or through devolving revenue sources to the locality. Roughly 85 percent of Cherepovets’s budgetary expenditure falls into the social norm category. The local assembly also limits budgetary discretion through a list of four categories of protected expenditures, in order of importance are public sector wages and salaries, medicine and medical supplies, meals, relief

22 There are two elements of such a structural problem, whether the appropriate levels and types of taxes/user fees (in lieu of transfers) are applied at the local level and whether the rates are too high given the ability to pay and the desire to promote re-investment. See Bird (1995) and Bird, Freund, and Wallich (1995) for more on the first element.

23 This figure, which matches other estimates, was derived by summing all social-type line items in the budget and dividing by total expenditures. Mitchneck (1995) notes that most local expenditures was focused on social assets, while economic development expenditure depended upon higher level government authority perceptions of local government in their budgetary allocations.
and benefits required by federal and oblast laws, and, finally, electricity, security, and heat. Yet, no revenue sources are earmarked to finance these expenditures.

The Need for Budgetary Control Measures

The Soviet model of setting minimum social standards (which translate into local government budgetary expenditures) conflicts with the lack of assured revenue-yielding ways of financing such expenditures. Given limited revenues, the bulk of local level budgetary decisions revolve around meeting these standards – reducing if not nullifying the practical meaning of budgetary discretion.

Yet, greater operational efficiency is always possible and should be encouraged. As I have claimed at a seminar of about 40 local public administrators in Cherepovetz and in several Estonian cities, the application of the basic concepts (without the technicalities) of zero-based and performance budgeting would encourage periodic program review – promoting efficiency and the modification and elimination of projects. A simple zero-based budgeting exercise would allow each agency to assess current activities, set priorities, and gauge progress on activities. A performance budget would allow government officials conduct needs assessments, determine methods of implement, ear-mark funding and identify obstacles in meeting specific, often quantifiable, objectives for a defined period of time.

A simple cost analysis would allow government officials to contain costs by classifying fixed costs differently from variable costs would allow them to identify cost centers. To control expenditure, a system could be established to regularly calculate divergences between budgeted (appropriated), obligated, and actual expenditures at the agency level. Currently, the budget director in Cherepovetz prepares an overall analysis of such discrepancies, but agencies and perhaps even program managers could conduct similar analyses.

Recommendations

For many local jurisdictions in Eastern Europe, there are few deficit reduction options. Yet, as firms go through the process of bankruptcy, government reorganization, as corporate reorganization, should be considered for their potential economic impact. Administrative re-alignment needs to occur centered around pub-

24 Resolution of Borrowing, passed by the Legislative Assembly, Cherepovetz, Rayon, February 14, 1996.

25 These recommendations were developed from the over 100 hours of in-depth interviews with public officials and have checked to ensure their Constitutional, legislative, and normative legality.

190
lic sector functions. The creation of water districts, sewage districts, health districts and the like, which cut across jurisdictions and are administered through inter-governmental agreements, shared governance and fiscal responsibilities represent examples of such realignment. Advantages include reduced costs, increased administrative efficiency (by drawing the best resources, such as personnel, from a wider resource pool, increased specialisation and concentration, and reduced average costs per capita (by spreading costs over a larger population and by widening choices for physically locating plants and other capital structures). While local autonomy and control is reduced, each jurisdiction still retains its political structure and will have representation in the governing bodies of these service districts.

Public authorities should also be established. Public authorities are nonprofit organizations formed by government to carry out highly specialised functions (usually related to infrastructure) within a service district that may cross jurisdictional lines. They are financed primarily through the issue of debt, user fees, and less frequently through earmarked tax revenues. As such authorities are politically and financially independent of the government, they can help relieve local government budgets, reduce the impact of political and budgetary in-fighting and compromises, and respond flexibly to customer needs (bypassing of many rules that bind government service provision).

Again, while some accountability is lost, much is retained, as elected officials design, appoint, evaluate and approve many of the actions (including budgetary ones) of the authorities. For example, the authority may have the power to issue bonds, but setting the terms of these bonds, issuing them and contracting with the underwriters may be done by a government body and the terms under which the authority is allowed to issue the bonds can be denied or amended.

References


The Property Tax – A Missed Opportunity for Fiscal Decentralisation in Transition Countries? The Czech and Slovak Cases

Phillip J. Bryson and Gary C. Cornia

Introduction

The study of the transition of the former Soviet Union and the bloc countries of East Europe has focused mostly on the transitioning private sector. In the literature, much attention has been paid to the ways in which centralised governments get out of the business of trying to micromanage the nation's productive enterprises. Less attention has been paid to the equally important question concerning the ways in which the public sector is decentralised and local democracy is achieved.¹ The transition to a set of decentralised, democratic institutions (the process of fiscal decentralisation) is a difficult problem, given the persistence of Marxist-Leninist legacies. The centrally planned countries had no new public and private managerial elites or opposition parties waiting in the wings to replace the old nomenklatura, the party elites, and the entrenched bureaucracy. Only the new Bundesländer of East Germany could obtain new personnel from its big brother country to the west. This means that the personnel that manage public sector transition are usually those trained under the old system. Yet, the durability of traditions and personnel are not the sole factors responsible for the tendency to block the devolution of power to subnational governments. The political environment and the centripetal forces inherent in center/periphery relationships make decentralisation extremely difficult, even without the inertia of the actors and the customs involved.

¹ Central planning provided for all public goods and services at the behest of the central government and its ministries. There were no real sub-national governments, since all policy decisions related to taxation and the distribution of public services were made at the center. “State administration,” or the faithful implementation of the central will and plan, was the only work done at the sub-national levels.
While we expected wide support for decentralisation, especially in the Czech and Slovak Republics which have a history of local government independence, centrist forces have remained exceptionally strong throughout the region. Two forces promised to promote decentralisation – the desire of Eastern European countries to accede to the EU and EU demands that they develop viable democratic governments and market economies. Yet, no EU demands for fiscal decentralisation were made. Section I will introduce the problems associated with efforts at fiscal decentralisation effort (especially in the provision of local public services). The problems of local finance in transition countries and specifically in local revenue collection through the use of the property tax and the provision of funds transferred to municipalities from the center are addressed in Section II. Section III reviews the experience of fiscal decentralisation in the Czech and Slovak cases and shows some of the ways that fiscal decentralisation, in spite of the more hopeful developments of transition, is failing. A review of the grants system in the Czech Republic is the focus of Section IV, and the potential role of the EU as a promoter of democracy and decentralisation will be reviewed in Section V. Implications and conclusions will be discussed in Section VI.

The Problem of Fiscal Decentralisation in Transitioning Countries

Overcoming the legacies of the former regime remains a key problem affecting the transition from central planning to market democracy. Such a problem extends beyond this, to the poverty of local governments in the region, who must wait for transfers from central governments who are also in continual fiscal crisis, and extends to the institutions of inter-governmental relations (which block both resources and autonomy for local governments). The institutions of the nascent democratic republics face serious moral hazard problems, which is likewise a legacy of former planning systems (Bryson and Cornia, 2003). Moral hazards and other problems result from the center's unwillingness to inaugurate large-scale change in local public service provision. Policy makers prefer to continue behaving as they did under the planning system, specifically by keeping taxes indirect and non-transparent and providing those public services which can be afforded without political opposition. Local citizens, disinclined to shoulder the fiscal burdens of public service provision, preferring local public service finance from transfers from the center rather than from local taxation. Central governments agree to such transfers and retain complete control over the programs funded. In the case of social goods formerly provided by state-owned enterprises, the state was
willing to retain soft budget constraints for enterprises because of the potential strain on enterprise budgets.²

Given the inertia of the former system, transition thus far has not greatly improved the provision of public goods and services. In cases where hard budget constraints were adopted, unemployment not previously experienced resulted as the state withdrew subsidies to enterprises which had been retaining superfluous workers. Privatisation and marketisation also led firms to stop providing social goods and services seen as “entitlements” in the western social market economies. Citizens qua consumers were not largely opposed to foregoing generous public goods provision at the outset of the transition, since they anticipated the greater availability of the much richer menu of private goods common to market economies.³ While the provision of acceptable public services in the municipalities of transition countries can be postponed, it is unclear how countries that are extremely eager to be associated with the European Union can indefinitely ignore the acceptable provision of public services. The transition to democratic institutions, market economies, and self-determination at the local government level demands that the question of municipal finance be addressed in a more satisfactory manner.

The Provision of Public Goods and Services: Potential Role of the Property Tax in the Transition

Under central planning, the government planned the provision of public goods and services; local offices were expected only to implement state plans. Local autonomy, so highly valued by Czechs, Slovaks, and others in East Europe, was lost until the post-communist era began in 1990. As in other transition countries, Czechoslovakia began to decentralize its fiscal system immediately after transition began in 1990. Early legislation was passed, to establish a more Western-style taxation and budget system – yet the property tax, potentially a primary source of local revenues, was left largely unchanged from the nominal tax it had been in the central planning era. The “Velvet Divorce” of 1993 set the new Czech and Slovak Republics – with their same fiscal legislation and institutions, and prop-

² Under central planning several kinds of public and even private goods were provided directly to the workers through their enterprises (Bryson, 1984). In humanizing their formerly capitalist firms, communist governments elected to provide much of the housing, health care, nursery care, vocational training, general education, recreation, and even sports and vacation facilities through enterprises.

³ The Socialist economies produced far more public goods than private goods and consumers were expected to temporarily forego goods such as excellent schooling, health care, and housing. The willingness to wait for high quality public goods, however, was predicated on the greater availability of the private goods (such as electronics and automobiles) which had been in such short supply under central planning.
Section IV      Financing Capacities to Govern

erty tax base and rates – on independent development paths. The issue of fiscal decentralisation, while given little attention in the transformation, is vital for the democratic development of the former centrally planned countries. Since the downfall of communism, fiscal crises in the transitioning countries have been common, and transfers of funds from the center to the subnational governments have generally been insufficient to cover needs. Municipalities have not been able to function at full effectiveness for reasons which extend beyond having insufficient funds for public service provision. Municipalities have also been unable to enjoy genuine autonomy, especially because they lack sufficient sources of independent revenue. In the Czech and Slovak Republics, failure to modernise the property tax – the traditional source of independent finance in Western countries – has caused great difficulties. The property tax remains the same purely symbolic and ineffectual tax that it was under central planning regimes.

Power devolution is not a part of the instincts of either central or municipal agents. The advocates of strong central government view transition country municipalities (such as those in the Czech and Slovak Republics) as being either incapable of fiscal autonomy, or unwilling to demand or require such autonomy. They also argue that many Czech and Slovak Republic municipalities and townships are too small to manage self-government given a lack of technical abilities, resources, viable fiscal base, and scale economies in the provision of public goods and services. Immediately after the Velvet Revolution of 1989, Czechoslovakia permitted villages and towns, many of which historically had been arbitrarily amalgamated, to declare their independence. This dramatically increased the numbers of independent municipalities (obci) in Slovakia, Moravia and Bohemia.

Insufficient size is not, however, the only problem facing many municipalities in the two republics. Problems of both horizontal and fiscal imbalance must be addressed by sub-national governments in those former Soviet countries that are undergoing public sector reform. Horizontal fiscal imbalance results from the availability of different resources to municipalities having disparate wealth. Vertical imbalance occurs when central government captures most of the tax-able sources, leaving municipalities with insufficient independent tax revenue sources.

The lack of trust in government represents another important problem for transition countries. The process and outcome of decentralisation will enhance the efficiency of public services as government is brought closer to the people (Tiebout, 1956; Bish and Kirk, 1974). Decentralisation makes public servants’ decisions more transparent and permits citizens to participate more effectively in government at low cost (Oates, 1998). Successful decentralisation requires, however, the reassignment of personnel and responsibilities, often with a reduction in
services, which is not always easy for citizens to understand or support (Amsden, Kochanowicz and Taylor, 1994).

For fiscal decentralisation to succeed, local governments must have access to an autonomous source of tax revenue and should not be dependent upon the center for all revenues (Bird et al., 1995). Local activity increases the visibility of choices made by elected and appointed public officials, and accountability increases pari passu with visibility (Litvak, et al. 1998). The property tax embodies the positive characteristics required of a local tax. The property tax is immobile, as taxpayers cannot evade it by engaging in transactions outside a relevant political border. The property tax is stable as it provides fairly constant revenues independent of the business cycle. It is potentially neutral as its imposition does not cause changes in the utilization of the services of taxed properties. The tax falls on taxpayers who presumably have the means and the ability to pay (they are home owners and property holders). As local public services improve and increase property values, the beneficiaries are required to pay for the increased value. Finally, as a direct tax, it is visible to taxpayers.

Visibility is both an advantage and disadvantage; the design and implementation of an effective property tax is very challenging. Since it is direct and visible, property taxes make citizens and officials less comfortable than is the case with indirect taxes, such as the VAT (Youngman and Malme, 1994). Both citizens and officials usually prefer excise taxes and local fees on a variety of transactions (Shleifer and Vishny, 1998). For local officials, the property tax too often generates political problems (Paugam, 1999). There are also administrative and practical problems with property tax implementation (Bahl and Linn, 1992). Market-oriented property values can be difficult to establish in the absence of a functioning real estate market (Bertaud and Renaud, 1994). The uneven distribution of the property tax base creates inequalities (Netzer, 1966). Other practical problems include inflation, which can erode assessments which are not automatically linked to inflation or economic growth and poor quality cadastral data, collection and enforcement efforts.

As a consequence of political and practical issues, the property tax remains critically under-used, especially in the transition countries; impeding successful decentralisation and undermining potential welfare gains from decentralisation (Dunn and Wetzel, 2000). Local governments in transition countries have been almost uniformly under-funded and are overly dependent on central transfers (Bird et al., 1995). The fee-generating services they provide largely fail to match

---

4 Excise taxes, for example, can be regressive, as they represent a larger portion of lower than of higher incomes.

their significant resource needs and may constitute “nuisance levies” that cost more to collect than they yield in revenues.

Fiscal decentralisation can succeed only if *inter alia* the following three conditions hold. First, there must be a correspondence between the expenditure responsibilities of local governments and the financial resources available. Second, the autonomy of subnational governments must be increased by providing incentives for them to mobilize their potential resources. Third, the system for providing transfers must be transparent and based on objective and consistent criteria, rather than through negotiation and ad hoc bargaining.  

**Moral Hazard Problems in Property Tax Administration**

Principal/agent confl icts are common in transition countries’ fiscal regimes due to the marked divergences between the perspectives and incentives of central and sub-national governments. Agents tend to pursue their own interests rather than those of the principal; in part, because agents tend to regard themselves as principals. Local government can be considered the principal, and the central government as the agent. The local government principal receives property tax revenue as a result of the agent’s actions, but the agent central government will not generally share in the revenues, in spite of its superior resources and position. Such a situation predominates in the Czech Republic – resulting in moral hazard problems.

The sub-national governments, desperately needing funds, can only hope that the center will exert significant effort in administering the property tax – as sub-national governments do not administer these taxes nor can they monitor tax administration closely. Their revenue from these taxes will be far from optimal since the center has fewer incentives to exert the effort and resources needed to generate property tax revenue. Smaller property tax revenues can easily be offset by greater transfers from other taxes or revenue sources. Yet, even if local governments are financially no worse off (if the center compensates for its lack of effect in property tax revenues), these alternative revenues often come with “strings attached”.

Moral hazards can also emerge when the central government transfers revenue to local governments. Fiscal redistribution is justifiable if the distribution of resources is badly skewed across subnational governments, or if subsidies encourage local governments to pursue activities of high priority to the center (Musgrave, 1961). But transfers from the center can merely offset revenues that could have been raised locally. If the central government compensates the mu-
municipality for the property tax funds it has failed to collect, local officials can act less transparently.

Comparative Municipal Fiscal Performance in the Czech and Slovak Republics

The Slovak Republic has administered its property tax locally while the Czech Republic has administered it centrally. The Czechs have transferred considerable revenue to local governments, while the Slovaks have been far less generous in providing transfers. From the 1960s until the end of central-planning, the Czechoslovak federation’s local governments derived roughly 60% of their total receipts from subsidies. From around 1984, however, they experienced a gradual decline in central government subsidies, a trend that extended beyond the transition to market economics and democracy. Although there was a brief expansion of transfers from 1990-1992, the decline continued. After the mid 1990s, subsidies represented no more than about 25% of the total receipts of Czech and Slovak municipalities (Pekova, 1996).

Table 1
National and Local Budget in the Slovak Republic

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Public Budget TR*</td>
<td>170</td>
<td>158</td>
<td>184</td>
<td>273</td>
<td>279</td>
<td>287</td>
<td>324</td>
<td>371</td>
</tr>
<tr>
<td>National Budget*</td>
<td>150.3</td>
<td>139.2</td>
<td>163.1</td>
<td>162.9</td>
<td>175.8</td>
<td>179</td>
<td>179</td>
<td>224</td>
</tr>
<tr>
<td>Local Budgets*</td>
<td>19.5</td>
<td>19</td>
<td>21</td>
<td>21.5</td>
<td>23.5</td>
<td>22.7</td>
<td>23.1</td>
<td>24.8</td>
</tr>
<tr>
<td>Local as % of National Budget</td>
<td>12.97</td>
<td>13.65</td>
<td>12.88</td>
<td>13.2</td>
<td>13.37</td>
<td>12.68</td>
<td>11.9</td>
<td>11.07</td>
</tr>
<tr>
<td>State Grants to Local Budgets*</td>
<td>1.5</td>
<td>1.1</td>
<td>1.2</td>
<td>1.3</td>
<td>1.8</td>
<td>2.08</td>
<td>2.24</td>
<td>2.77</td>
</tr>
<tr>
<td>Grants as % of Local Budgets</td>
<td>7.69</td>
<td>5.79</td>
<td>5.71</td>
<td>6.05</td>
<td>7.66</td>
<td>9.16</td>
<td>10.52</td>
<td>11.17</td>
</tr>
<tr>
<td>Total Local Revenues*</td>
<td>21</td>
<td>20.1</td>
<td>22.2</td>
<td>22.9</td>
<td>26.7</td>
<td>25.9</td>
<td>24.2</td>
<td>27.4</td>
</tr>
<tr>
<td>Local Budget Expenditures*</td>
<td>19.3</td>
<td>19.1</td>
<td>18.9</td>
<td>21.9</td>
<td>25.3</td>
<td>25.8</td>
<td>23.9</td>
<td>26.5</td>
</tr>
<tr>
<td>Real Estate Tax*</td>
<td>1.6</td>
<td>1.79</td>
<td>1.73</td>
<td>2.14</td>
<td>2.61</td>
<td>2.4</td>
<td>2.72</td>
<td>2.87</td>
</tr>
<tr>
<td>RE Tax as % of Local Revs (%)</td>
<td>7.62</td>
<td>8.91</td>
<td>7.79</td>
<td>9.34</td>
<td>9.78</td>
<td>9.27</td>
<td>11.24</td>
<td>10.47</td>
</tr>
</tbody>
</table>

* Billions Sloval Crowns (SK) and Czech Crowns (CK).

Source: Federal Ministry of Finance, Czech and Slova Republics, and own calculations.
Table 2
National and Local Budget in the Czech Republic

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Public Budget TR*</td>
<td>422</td>
<td>472</td>
<td>536</td>
<td>585</td>
<td>562</td>
<td>595</td>
<td>626</td>
</tr>
<tr>
<td>National Budget*</td>
<td>358</td>
<td>390.5</td>
<td>440</td>
<td>482.8</td>
<td>479.6</td>
<td>509</td>
<td>538</td>
</tr>
<tr>
<td>Local Budgets*</td>
<td>91.1</td>
<td>111</td>
<td>129.1</td>
<td>161.72</td>
<td>145.3</td>
<td>157.2</td>
<td>187.7</td>
</tr>
<tr>
<td>Local as % of National Budget</td>
<td>25.45</td>
<td>28.43</td>
<td>29.34</td>
<td>33.5</td>
<td>30.3</td>
<td>30.8</td>
<td>30.9</td>
</tr>
<tr>
<td>State Grants to Local Budgets*</td>
<td>27.03</td>
<td>29.25</td>
<td>33.28</td>
<td>59.44</td>
<td>35.87</td>
<td>37.39</td>
<td>41.43</td>
</tr>
<tr>
<td>Grants as % of Local Budgets</td>
<td>29.67</td>
<td>26.35</td>
<td>25.77</td>
<td>36.75</td>
<td>24.68</td>
<td>23.79</td>
<td>22.07</td>
</tr>
<tr>
<td>Total Local Revenues*</td>
<td>101</td>
<td>111</td>
<td>129</td>
<td>162</td>
<td>147.2</td>
<td>162</td>
<td>188</td>
</tr>
<tr>
<td>Local Budget Expenditures*</td>
<td>90.1</td>
<td>112.1</td>
<td>132.3</td>
<td>171.1</td>
<td>150.5</td>
<td>158</td>
<td>173</td>
</tr>
<tr>
<td>RE Tax as % of Local Revs (%)</td>
<td>2.99</td>
<td>3.43</td>
<td>2.95</td>
<td>2.48</td>
<td>2.68</td>
<td>2.53</td>
<td>2.26</td>
</tr>
</tbody>
</table>

* Bilions Sloval Crowns (SK) and Czech Crowns (CK).

Source: Federal Ministry of Finance, Czech and Slovak Republics, and own calculations.

Table 1 shows the financial situation from the end of central planning to 2000. The data indicate that Slovakia's municipalities are substantially poorer than those of the Czech Republic as compared with Table 2. From 1993 onwards, after the Velvet Divorce, Czech municipal budgets were more than twice as large as those of Slovakia, even without taking into consideration the greater value of the Czech crown. The difference between the two is best illustrated by a per capita comparison of grants from the respective central governments. By the end of the period, per capita public services expenditures for Czech citizens were three times greater than those for their Slovak counterparts. Local budgets in Slovakia are only about 14% of the total national budget. In the Czech Republic, they are as high as from one quarter to just over one-third of the national budget.

A comparison of central government grants to municipalities reveals the reason for the relative poverty of Slovakian municipalities. Grants in Slovakia ranged from 1.5 billion Slovak crowns (SK) in 1993 to 1.1 billion SK in 1994. The grants paid by the Czech central government to the municipalities ranged from just over 27 billion CK in 1993, to 59.5 billion CK in 1996. (One should keep in mind, of course, that the population of the Czech Republic is twice as large as that of Slovakia.) Interestingly, in the years just prior to Slovak independence (1991 and 1992), the government in Prague provided grants of 7.9 billion and 2.4 billion crowns respectively for Slovak municipalities.

Independence from the Czechs turned out to be a shock for the municipalities of the Slovak Republic, for it separated them from the Czech central budget. The Slovak municipalities soon discovered that the strange politics of the Mechiar era would also separate them from the Slovak central budget. Mechiar was interested in the “family privatization” of Slovak industry, but not in helping solve the problems of Slovak towns, cities, and regions. He let them know they would
be forced to solve their own fiscal problems, for there would be no significant resource flow from the center to the subnational governments.

**The Czech System of Inter-governmental Grants**

In the Czech case, the central government’s ongoing efforts to fund the cities and towns occurred primarily through revenue sharing and financial grants. As noted in Table 3, local tax revenues were only 13.6% of total budgets at the beginning of the period in 1994. From 15% in 1995, the share then declined for three straight years, reaching a low for the period of 12.8% in 1997. Increasing over the next three years it reached an all-time high in 2000 of 15%.

In the early years the center transferred a considerable share of the personal income tax revenues that it collected to the local governments. In 1994 and 1995, municipal governments received 89% and 87.6% respectively of those revenues. In 1996, this share dropped to 63% and remained at that level. Corporate income tax followed a contrasting pattern, with the center initially transferring only a small portion to the municipalities. In 1994 only two tenths of one percent of corporate income tax revenues accrued to local budgets, increasing quickly to the level of over twenty percent. It increased only gradually up to 26% from 1996 to 1999, reaching 31% in 2000.

Federal grants have been an important and increasing source of funding for Czech municipalities. They have represented roughly a quarter of the budgets of the local governments since 1994. They constituted 22% of total accessible funds in 1994 and 29.8% in 1997, declining to around a quarter of the total for the remainder of the decade, holding at 25.7% in 2000. Over the past decade, the joint contribution of transfers and shared taxes has remained at roughly 70% of local government revenues, but a “meaningful degree of tax autonomy for local authorities was still missing” (Oliveira and Martinez-Vazquez, 2001).

The Czech Republic is unique compared to most other European countries (including other transition countries) because it does not offer equalization grants to districts or municipalities. Instead, a complex system of conditional grants or subsidies transfers funds to promote central government policy objectives. Since they are targeted for specific purposes, local governments must follow directives and report on how funds were spent. The relative importance of earmarked subsidies is, however, declining, providing only 24% of all local revenues in 1999. Table 4 provides an overview of the types of earmarked subsidies available.

---

7 Ibid. 48.
Table 3
Local and State Tax Revenue Sharing, Czech Republic

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax Revenues, State</td>
<td>349,027</td>
<td>391,228</td>
<td>439,186</td>
<td>464,087</td>
<td>495,232</td>
<td>524,765</td>
<td>544,142</td>
</tr>
<tr>
<td>Tax Revenues, Local</td>
<td>54,428</td>
<td>68,167</td>
<td>70,000</td>
<td>76,091</td>
<td>83,319</td>
<td>87,011</td>
<td>95,807</td>
</tr>
<tr>
<td>Consolidated budgets, Total</td>
<td>401,503</td>
<td>457,022</td>
<td>506,202</td>
<td>592,474</td>
<td>575,836</td>
<td>608,585</td>
<td>636,618</td>
</tr>
<tr>
<td>Local Share in %</td>
<td>13.5</td>
<td>14.9</td>
<td>13.8</td>
<td>12.8</td>
<td>14.5</td>
<td>14.3</td>
<td>15.0</td>
</tr>
<tr>
<td>Local PI Tax Revenues</td>
<td>48,716</td>
<td>60,096</td>
<td>50,818</td>
<td>54,503</td>
<td>58,581</td>
<td>60,078</td>
<td>63,501</td>
</tr>
<tr>
<td>National PI Tax Revenues</td>
<td>5,804</td>
<td>8,491</td>
<td>29,726</td>
<td>33,378</td>
<td>36,339</td>
<td>35,224</td>
<td>34,771</td>
</tr>
<tr>
<td>Total PI Tax Revenues</td>
<td>54,520</td>
<td>68,587</td>
<td>80,544</td>
<td>87,881</td>
<td>94,920</td>
<td>95,302</td>
<td>98,272</td>
</tr>
<tr>
<td>Local as % of Total</td>
<td>89.3</td>
<td>87.6</td>
<td>63.1</td>
<td>62.0</td>
<td>61.7</td>
<td>63.0</td>
<td>64.6</td>
</tr>
<tr>
<td>Local CI Tax Revenues</td>
<td>128</td>
<td>3,145</td>
<td>14,139</td>
<td>13,361</td>
<td>16,232</td>
<td>18,773</td>
<td>23,470</td>
</tr>
<tr>
<td>State CI Tax Revenues</td>
<td>63,624</td>
<td>63,337</td>
<td>47,676</td>
<td>42,202</td>
<td>51,324</td>
<td>51,343</td>
<td>52,322</td>
</tr>
<tr>
<td>Total CI Tax Revenues</td>
<td>63,752</td>
<td>66,482</td>
<td>61,815</td>
<td>55,563</td>
<td>67,556</td>
<td>70,116</td>
<td>75,792</td>
</tr>
<tr>
<td>Local as % of Total</td>
<td>0.20</td>
<td>4.7</td>
<td>22.9</td>
<td>24.0</td>
<td>24.0</td>
<td>26.8</td>
<td>31.0</td>
</tr>
<tr>
<td>National Government</td>
<td>30,980</td>
<td>34,803</td>
<td>61,504</td>
<td>35,839</td>
<td>37,355</td>
<td>41,374</td>
<td>45,939</td>
</tr>
<tr>
<td>Current</td>
<td>24,003</td>
<td>21,747</td>
<td>48,882</td>
<td>23,958</td>
<td>24,982</td>
<td>27,658</td>
<td>30,429</td>
</tr>
<tr>
<td>Capital</td>
<td>6,977</td>
<td>13,056</td>
<td>12,622</td>
<td>11,881</td>
<td>12,373</td>
<td>13,716</td>
<td>15,510</td>
</tr>
<tr>
<td>Local Rev &amp; Grants Total</td>
<td>112,241</td>
<td>130,041</td>
<td>163,831</td>
<td>145,342</td>
<td>157,178</td>
<td>187,700</td>
<td>181,814</td>
</tr>
<tr>
<td>Consolidated Public</td>
<td>504,283</td>
<td>522,753</td>
<td>562,792</td>
<td>487,655</td>
<td>637,656</td>
<td>688,844</td>
<td>707,844</td>
</tr>
<tr>
<td>Local Share</td>
<td>22.3</td>
<td>24.9</td>
<td>29.1</td>
<td>29.8</td>
<td>24.7</td>
<td>27.3</td>
<td>25.7</td>
</tr>
</tbody>
</table>

(Millions of Czech Crowns)

Ministry of Finance, Czech Republic, and authors' calculations.
Table 4
Comparison of the Two Types of Earmarked Grants

<table>
<thead>
<tr>
<th>Categorical grants</th>
</tr>
</thead>
<tbody>
<tr>
<td>- For funding tasks delegated by the center to municipalities</td>
</tr>
<tr>
<td>- Must be spent on specific, well-defined programmes</td>
</tr>
<tr>
<td>- Require no matching funds from the municipalities</td>
</tr>
<tr>
<td>- Distributed generally on a “per head” basis</td>
</tr>
<tr>
<td>- Cover outlays for social assistance, early education, hospital and assistance institutions, fire brigades, and the execution of general government services including registration and permits.</td>
</tr>
<tr>
<td>- Used by central governments <em>inter alia</em> for redistributing fiscal resources, countering externalities, adjusting for vertical imbalances, and promoting local government expenditures in support of national programs. 8</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Capital transfers</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Originate from central government general budget and from State Environmental Fund</td>
</tr>
<tr>
<td>- Aimed at <em>inter alia</em> fire protection, natural gas distribution, schools, development of industrial zones, hospitals, water and sewerage treatment plants, and public transport.</td>
</tr>
<tr>
<td>- Matching funds are required of municipalities for all centrally supported capital infrastructure projects (except for the building of new social care institutions).</td>
</tr>
<tr>
<td>- Capital transfers from State Environmental Fund used for environmental purposes (fund water supply systems or introduce gas, flood control, and energy conservation measures).</td>
</tr>
<tr>
<td>- Matching funds of at least 20% required of the subnational governments at rates set by the state agency. 9</td>
</tr>
</tbody>
</table>

---

8 If unconditional grants were used rather than categorical transfers, central authority would demonstrate greater respect for the decision-making autonomy of local government officials. The nearly exclusive use of earmarked grants suggests the central authorities’ belief that they have identified all local level priorities and that they simply possess better information on needs than local officers do.

9 In 2001 the State Environmental Fund transferred a share of about 7 percent of the Republic total for that year.
Grants and the Future

Specific transfers provide negative incentives for municipal revenue generation as the central government reduces transfers as local governments increase their own revenues. The discretionary allocation of grants also tends to be less efficient and fair than the use of objective formulas or well-publicized legislative procedures and criteria.\(^\text{10}\) Oliveira and Martinez-Vazquez suggest instead that local governments develop comprehensive expenditure plans in line with the center’s capacity to pay.

Clearly, budget transfers from the center give the Czech obec considerably more options than those available to Slovakia. The state provides a large share of Czech municipal funding, so Czech municipalities enjoy less budget autonomy. Much of this funding consists of resources other than the property tax, as the more generous provision of fiscal grants and transfers to Czech municipalities appears to avoid the need to develop the property tax as a revenue source. In contrast, local independence plunged Slovak municipalities into poverty, but placed them under a hard budget constraint with a large measure of budget autonomy from the center. The Slovak Republic forced its municipalities to increased property tax yields by forcing them to be more responsible for their own revenues. Further fiscal development in Slovakia would, however, require a more serious property tax. Transfers from the central government are unlikely to satisfy local financial requirements, since they only represented about a tenth of the local budgets. The Slovaks should thus continue to develop local autonomy through the establishment of a more substantive property tax.

Since transition began, both republics have struggled with periodic fiscal crises – resulting in reduced revenues to the municipalities and increased transfers of additional service provision responsibilities. Numerous unfunded federal mandates reflect this transfer of responsibility from the center. The Czechs have been less guilty than most other transition countries, but even when the Czech government funds centrally mandated programs, it retains strong influence over the use of central funds and thus subverts the development of local autonomy.

The lack of a serious property tax may appear to be of no large consequence given the Czech Republic’s relative largesse toward its sub-national governments. The fiscal needs of the Czech regions, districts and municipalities could be (and largely is) amply covered through central government transfers and other revenue sources.\(^\text{11}\) The fiscal needs of the municipalities have not been properly taken

---

\(^{10}\) Fairness may be reduced due to distortions by pressures from lobbyists representing local governments or by parliamentary members defending or lobbying for local interests.

\(^{11}\) It appears that the European Union early on accepted this fact as evidence for the proposition that the Czech Republic was developing satisfactorily as a modern democracy and should be admitted as a full member.
The Property Tax – A Missed Opportunity

care of, however, even though these needs are less than those of Slovakia and some other transition countries. The central government also takes a paternalistic attitude toward the municipalities, with “agents” probably feeling they are promoting the financial security of the cities and towns. Yet, to the outsider, central government appears to be prohibiting the independence of the municipalities and regions (Bryson and Cornia, 2000). The center has not moved beyond the central planning era’s tendency to rely only on local officials for state administration. The center generally establishes the policies, allocates the funds, and gives very specific directions on how local officers are to utilize the funds.12

The administration of public housing demonstrates the spirit of intergovernmental relations whereby the policy preferences of central government force municipalities to operate at a loss. After the Velvet Revolution in 1989, the central government turned public housing over to the municipalities. The notoriously poor quality buildings which needed major expenditures were transferred without the funds to maintain or repair them. Privatisation proceeds from housing units provides a supplementary revenue source for the municipalities. Housing rents and charges on regulated public utilities like water and gas are still held at levels below full cost recovery, however. The salaries of local government employees are also controlled by central government (Martinez-Vasques and McNab, 1997).13

Transitional countries generally experience these kinds of intergovernmental relations (and worse). Local governments have often been administrative agents with unfunded mandates burdening their activities. The assignment of responsibilities without the corresponding resources frustrates local governments who are dependent upon state financial transfers. Since the start of transition, municipalities have become accustomed to having no independent operations based upon significant revenue sources under their jurisdictional control. The Czech Republic has generally avoided this situation and the imposition of substantial unfunded mandates on local governments (Oliveira and Martinez-Vazquez, 2001: 26). The Czech central government must guarantee full funding for any new expenditures arising from delegated functions. Exceptions to these rules exist, such as the recent transfer of the responsibility for issuing personal identification cards and passports and the public housing case mentioned

---

12 Since the start of transition, municipalities were generally responsible for developing their own capital infrastructure. In the Czech Republic, however, local governments fully depend on the central government to fund capital expenditures through grants and subsidized loans. Municipalities can often suggest projects for funding, but the center selects projects and dictates funding terms and conditions.

13 Regional governments, the kraje, are now being phased in, and will be funded for a time by transfers from the state budget. They should inherit some of the state’s responsibilities in secondary education, regional planning and inter-city transport. Their activities will almost certainly be guided by central directives and mandates. Thus, the new kraje will likely become an important part of sub-national government without enhancing local autonomy.
above. These exceptions help explain why soft budget constraints develop for local governments. Sub-national governments cannot be expected to meet their financial obligations if they exceed available funds. The municipalities become hostage to their administrative directors in central government, but avoid full financial responsibility by partnering in their administrative practices.

The EU and On-going Czech Centralisation

The European Union could pressure the Czech Republic to provide genuine autonomy for local governments. The Czech system has remained fiscally and politically centralised. As a nascent democracy, the central government must respond to the elected leadership’s pressure to increase the level of local funding. The Czech government is also accustomed to responding to pressure from the European Union. The EU is in a position to dictate reforms to countries aspiring to membership. Indeed, EU membership requires that a country achieve:

- stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities;
- a functioning market economy as well as the capacity to cope with competitive pressure and market forces within the Union;
- the ability to take on the obligations of membership and adhere to the aims of political, economic and monetary union.

The EU could appropriately demand local autonomy, as it guarantees democracy. The EU would have the right to expect fiscal reforms in the Czech Republic. Yet, the EU does not require fiscal decentralisation; and in its initial country report on the Czech Republic’s accession, questions about budgetary and finance systems were limited to the financial control system. Only the Czech Supreme Audit Office (created in 1993) expressed concern, observing that the system of internal financial control did not correspond to EC provisions for member states. When the Czech government expressed its intention to improve budgetary control, the EC declared itself satisfied.14

The EU commends the Czech Republic for strengthening VAT controls through additional information technology.15 The EU also acknowledged the Czech Republic for its Act on Budgetary Rules passed in June, 2000 which established the legal framework for budgetary relations with the EC. Yet, the EU admonished the Czech Republic to strengthen its financial control functions at all levels and berates it for continued Finance Ministry weakness in tax collection,


15 In the 2000 Regular Report by the Commission on the Czech Republic's Progress towards Accession.
for its analysis of capital investment programmes, and for poor management of EC pre-accession funds.

The EU does not mention the more serious, long-term failure to enable or to promote the development of local autonomy as shown by the Czech Republic’s unfunded mandates, tied financial transfers from the center to local governments, and disinterest in the property tax as a means of independent financial leverage. Devolution was considered a key requirement in a recent attempt to implement public administration reform in both the Czech and Slovak Republics. Effective public administration cannot, however, rely on regional and municipal governance without fiscal autonomy.

References


EC 2000 Regular Report From the Commission on The Czech Republic’s Progress towards Accession.


Managing the Relationship between the State and Society
Evaluating the Quality of Internal Information Flows and Citizen Interaction in Estonian Local Authorities

Kristiina Tõnnisson

Public administrative reform initiatives of the 1990s have resulted in a range of ideas about best organising public administrations and managing public organisations. While reform efforts vary in depth, scope, and success from country to county, their common goals (both in the West and the East) are better administration, increased service quality and higher organisational capacity. In the case of Estonia, significant improvements in municipalities have taken place in the last ten years – even if some local authorities have developed more than others and the degree of changes varies from municipality to municipality. Though improvement has been rather slow, Estonian organisations have become more open and efficient and decision-making processes, which used to take place behind closed doors (or used to consist of one-way communication) are giving way to interaction and involvement.

This paper describes communication and information flows within and between the Estonian municipalities and their external environment, juxtaposing theoretical assumptions about information change with the experiences of Estonian local authorities. Data are drawn upon fieldwork conducted in 1999 consisting of 73 interviews with public officials, 156 interviews with citizens, direct participant observations and formal document analysis. Follow-up interviews were conducted in 2002 consisting of 20 interviews with representatives of municipalities, central government and the private and non-profit sectors.

Public Governance and Public Service Quality

“Governance” and “quality” are widely used terms with a wide variety of meanings. Bovaird, Löffler and Parrado (2002: 12) define governance as the “set of formal and informal rules, structures and processes by which stakeholders collectively solve their problems and meet societal needs”. The definition engages different stakeholders and is focused on outcomes rather than outputs. The governance concept by Kooiman and Van Vliet (1993: 64) points to the creation of a structure or an order which cannot be externally imposed but results from the interaction of a multiplicity of actors.
ity of governing and mutually influencing actors. In most definitions, the process of governance encompasses the traditions, institutions, and processes that determine the exercise of public authority and mechanisms by which citizens are given voice. According to Shand and Arnberg (1996: 17), these processes differ from country to country depending on cultural and political backgrounds – making it almost impossible to devise one universal definition which is applicable to every context.

While the term “governance” refers to the processes, “good governance” refers to the normative principles. The European Commission (2001: 10) delineates five principles underpinning good governance: openness, participation, accountability, effectiveness and coherence. These principles apply to all levels of government, including local government. The Organisation for Economic Development and Cooperation (OECD) summarises the quality of governance in the context of public service delivery as “respect for the rule of law; openness, transparency, and accountability to democratic institutions; fairness and equity in dealings with citizens … efficient, effective services; clear, transparent and applicable laws and regulations”.

In general, quality stems from meeting customer expectations by building and sustaining the relationships. Quality derives from “doing right things right” and is uniquely defined by each individual. Given that quality consists of satisfying customer expectations, assessing quality should start with these expectations. Parasuraman et al. (1995: 146) define service quality as the degree and direction of discrepancy between customers’ service perceptions and expectations. Rogers (1990: 241) goes further by arguing that many aspects of quality services can be assessed only by those who receive these services. And importantly, customers might use more than just the service outcome in assessing service quality – perceptions of quality are also influenced by service process. According to Flynn (1993: 149), all services consist of core and peripheral elements. Peripheral elements are usually unimportant from the providers’ point of view, but they are important for the customers – leading to the acknowledgment that service quality should be viewed as continuum.

Public organisations additionally have to consider the political context in which they operate. As Walsh argues (1991: 513-14) “the question of quality in public service is not one of meeting service specifications, but of dealing with the shifting value structure of society.” Assessing the quality of public services is complicated and excessively burdens the public sector. Löffer (1996: 28) notes that “taking customer satisfaction as the difference between the perceived quality and individual expectations shows that public organisations with scarce resources also have to do expectations management, i.e. to make clear to citizens what is feasible and what is not feasible.” Thus, private sector principles and methods might not be the best ones for the public sector.
Social changes require governments to investigate its interaction with citizens “to query and investigate what happens to citizens’ priorities based upon the public interest” (Johnston, 1995: 13). Information flows between public institutions, and the public have thus become one of the dominant political themes of the 1990s. Such investigations assume that public servants and the clients closest to the actual production of public sector services have the greatest insight into, and information about, the real interaction and problems governing information flows. Government is assumed to perform better if those ideas and talents could be adequately harnessed (Peters, 1996: 48).

Giddens (1998: 75) goes further by arguing that representative democracy needs to be revitalised by introducing elements like local direct democracy and electronic referendums with which the government can re-establish direct contact with the citizens (and vice versa). Coleman (2001: 6) claims that traditional consultation methods are based upon one-way flows – governments ask questions and citizens give their opinions. For effective deliberative processes, two additional directional flows have to be established: citizens to citizens (so participants can exchange views with each other) and citizens to governments (citizens can ask questions).

Many ways exist for local authorities to communicate with the public and vice versa. The development of information and communication technology (ICT) makes a significant difference in the ability of public organisations to respond to citizens’ needs (O’Shea, 1992: 235). The availability and accessibility of information represents one of the central benefits of ICT as “the greater the interaction between the public sector organisations and their clients, the more pronounced the orientation towards the clients” (Wood, 1995: 88). With the wide range of technologies available, new possibilities exist to improve communication processes and provide public services directly through ICT. These innovations create “new, still expanding capabilities for... governments and individuals to communicate with each other, instantaneously and independently of geographical distance” (Bellamy, Taylor, 1998: 14). Some examples of the direct benefit of ICTs in the public sector include greater accessibility to public services and the faster provision of services to the individual.

However, improving service quality and governance processes cannot be achieved simply by moving the main activities of municipalities online. Public services and the organisational arrangement that underpin them must not only be supported by new technology, “they must also be transformed by it” (Bellamy, Taylor, 1998: 74). In the framework of general openness, hiding information or making data unavailable are seen to be becoming more difficult. However, as one of the most successful ways to hide information is to marginalise it by provid-
ing information together with a large amount of less important data. Thus, any
discussion about openness needs to differentiate between illusive openness and
actual openness. Real openness depends on the quality of information and the
accessibility of information that the municipality is willing to provide – and most
importantly whether citizens are really able to access the relevant information.

The Impact of Information and Communication Technology

Information and communication technology is often seen as a panacea for many
existing problems, like functional disintegration, vague or overlapping author-
ity structures, information fragmentation, ambiguous procedures, or excessive
red tape. Even if these technologies can help to resolve some problems, they do
not represent an end in themselves, but rather a means for achieving desired
outcomes. A popular cliché claims that ICT will change everything with which
it interacts, making old business practices and government structures obsolete
(Drechsler, 2002: 87). Good management may result through implementation of
an appropriate information system, but it does not necessarily have to – as shown
by the less than expected efficiency gains from ICT by the British National Audit
Office.¹ The need to support two structures – the traditional one and the new one
focused on using ICT – requires more organisational effort (and expense) than
supporting just one of these structures. Only if the number of new service users
becomes high enough to support the ICT-based structures may public organisa-
tions reduce or end the previous traditional service. Until the complete replace-
ment of one form of service provision by another, government must continue to
offer both services while spending more resources on information change.

Ridderstråle and Nordström (2001: 47) believe that the “infostructure” of
any organisation will become more important than its traditional “infrastructure”
– having both positive and negative effects on organisations. ICTs reduce the
burden of spending significant time on repetitive tasks or providing traditional
services to citizens entitled to those services. By using e-services, public officials
can dedicate more time for broader and more complicated problems, that often
involve several jurisdictional areas and which cannot be solved only by applying
ICT-solutions. Yet, ICT can also create additional barriers for communication,
haze situations and decrease accountability. ICTs might prevent some poor gov-
ernance practices, but they can also have no effect or can even foster unwanted
outcomes.

ICT can support good governance practices only as much as all stakehold-
ers are able and willing to take advantage of them. The conditions for both tech-

¹ For more information, see HM National Audit Office, Report HC 704-I, April 4, 2002, Better
Public Services through E-government. Downloaded from the World Wide Web on 4 April 2003
nological advantage and social acceptance are not always satisfied. Even if the Internet has grown from a network having 3 million users worldwide in 1994 to a network having 544 million users in February 2002 (according to NUA Internet Surveys), increased Internet adoption does not necessarily suggest that various societies adapt to take maximum advantage of Internet connectivity. In a study conducted in February 2002, 58% of the Estonian population between the ages from 15 to 74 have not used the Internet or use it very rarely – pointing to limited skills, difficult user logics, low appreciation of the life-learning concept, and lack of access as reasons for low utilisation (Kalkun, Kalvet 2002: 3). Yet, by 2004, all state and local governments agencies plan on providing services on the Internet, and 60% of the population is expected to use the Internet on a daily basis (Vallner, 2001: 43). If the digital divide can be bridged in the future, ICT would constitute a useful tool in providing information for different stakeholders. Until then, ICT addresses the results of current systems more than their causes.

**Transition of Estonian Local Authorities**

Estonian local authorities have undertaken several reform initiatives. Many municipalities have adopted new rules and regulations, they have changed their organisational structures, hired new people and introduced new information and communication technology. Nevertheless, efforts in reforms have largely concentrated on redrafting the formal structure and amalgamating functions of organisations, instead of introducing modern management tools.


According to the Public Information Act, the general public in Estonia has the right to inspect official documents and to access information of public interest. The purpose of the act, as outlined in article 1, is “to ensure that the public and every person has the opportunity to access information intended for public use, based on the principles of a democratic and social rule of law and an open

---

2 For more information, see the NUA Internet Survey at http://www.nua.com.
society, and to create opportunities for the public to monitor the performance of public duties”. The law requires the distribution of information through different channels, as defined in Article 17: “A holder of information shall comply with a request for information in the manner requested by the person making the request for information and shall release the information... in any... manner, taking into account the type of medium”. The Act also obliges municipalities to have their own webpage, which provides forms/applications, drafts of local regulations, information about services and a register of documents.

The existence of these acts and the installation of information systems do not guarantee compliance by individual municipalities. The Implementation Plan for the Estonian Information Policy presents an overview of associated mechanisms, interested parties, financing, time schedule, risks, and evaluation of results, but mainly on a state level. Unfortunately, no concrete action plan for implementation at the local level has ever been devised. While the new legislation has altered the general framework, legislation has not affected the civil service culture (Randma, 2001: 124).

Information Provided by Local Authorities

The information collected from interviews suggests the existence of an “implementation gap” between legislative requirements and existing information provision at the local level in Estonia. Many interviewees noted that the digitalisation of all documents has taken place rapidly in the Estonian public sector – though not on the municipal level (Tõnnisson, Lõõnik, 2002: 4). On 3 November 2002, only 137 out of 247 Estonian local authorities had their own webpage due to limited financial resources, limited interest and limited knowledge about webpage design. Of these 137 web pages, only 45 municipalities had a public documents register, only 42 had forms/applications available, only 20 had information about services and only 18 had drafts of local regulations on these web pages. Most communication between the authorities and the public consists of direct contact, telephone calls, information stands, information leaflets or occasionally through articles in local newspapers. Municipalities are only taking advantage of Internet based information delivery in bigger cities where more users are equipped with ICTs. Only in the two largest cities of Tallinn and Tartu do web pages interactively receive data as well as simply storing data.

The mere existence of law does not ensure transparency. On many occasions, information provided by different media interest the municipalities themselves, even if it has questionable relevance to the public. Public information on web pages is not always sufficient or properly presented. In some municipalities, the situation has already improved owing to co-operation with different interest groups and non-profit organisations, who push the authorities to produce and
disseminate relevant information. While such cases are not common, information provision has increased significantly since 1999.

Adding one or two e-services may not increase the number of Internet users (Kalkun, Kalvet 2002: 6). Various organisational changes must occur before new ways of working and new channels of information become widespread. The declaration that certain services have become available online is less important than municipality restructuring of their activities around the new technologies which are user friendly and easy to use. Municipalities need time to adapt to the new technologies and the citizens need to adapt to new channels of information flow. Municipalities who have already started an “e-government journey” by publishing static information on their web page and by establishing an on-line presence are making a beginning, even if the final overall goal will take time (Melitski, 2003).

Communication and information flow within the organisation

Internal communication is as crucial for quality governance as external communication. Based on interview results, information flow inside the municipalities is limited because many administrators are accustomed to working “inside their boxes” without sharing ideas and information with other units and colleagues. Improved governance stems from more effective communication and co-operation between civil servants who work together to provide public services. Poor communication hinders general workflow and, worse, prevents discussion about the barriers themselves.

While as Wang (1997) notes “information is intimately linked to power-knowledge relations”, inter-departmental rivalry and organisational politics often results in the treatment of ideas and information as “secrets” (86). Misinformation is put in circulation, leading to situations where departments are not aware of other departments’ activities, even if they are dealing with the same issues.

*I spent seven months trying to privatise the land. While visiting the city government for the last signature, I found out that someone already privatized the land. No one from other departments told me before.*

This case described by one of the interviewees shows how poor communication and rivalry might have drastic outcomes for governance processes. Current and updated information is not always universally available, such that the administrator who has updated information should circulate it.

Such miscommunication, as illustrated by the land privatisation example, also results from inadequate databases. Many information systems generate raw data rather than information useful for decision-making (which usually exists in the heads of certain administrators to whom one must have contacts. “By focusing
on the needs of both external and internal customers, the organisation develops means and mechanisms that benefit agency personnel as well as the people they serve in the process” (Wagenheim and Reurink, 1991: 263). Internal co-operation within the public administration contributes to quality public services. As collected information in government databases may be vulnerable to security breeches by hackers, viruses or technical failures, municipalities plan for the disadvantages, as well as the advantages the use of information systems will create.

Many local governments have established intranet services in their offices in order to improve internal communication – and according to the study respondents, the level of intranet usage has increased significantly from 1999 to 2002. In 1999 most public administrators preferred to communicate by phone or through memoranda. In 2002, the intranet was deemed to be a common communication channel and administrator lack of familiarity with computers no longer represented a major challenge in Estonian municipalities. Holmes (2001: 59) claims that the “wide availability of online data is pushing government departments to co-operate more along value chains and provide linked packages”. Over time, such co-operation will encourage the harmonisation of internal procedures, allowing collaboration and joint ventures between departments, different governmental levels and between the public and private sector – as is already happening in Estonia.

Yet, according to the interviews, most of this internally shared information inside municipalities focuses on procedures rather than building employee understanding. Different decisions and agendas are delivered to public servants, instructing them what needs to be done without additional information about why these decisions were made. Without background information about the decisions and an understanding of their content, civil servants have difficulty implementing these decisions appropriately. More diverse information should be provided, giving employees the information they need while leaving them enough space for their own ideas and suggestions.3

**Information flow from the citizens to the municipalities**

Information flows from citizens to municipal representatives is as relevant as the information flow from the municipalities to the citizens. As Jordan (1999) claims “societies and communities are nothing more nor [sic] less than the knowledge that members of those communities hold about their societies” – making the use

---

3 Such a command culture in Estonian municipalities may be due to “targetology”, where administrators try to meet the targets, but usually at the cost of quality (Flynn, 1993: 124). Most administrators admitted that due to heavy workloads, their main priority is to get the work done. In many cases low quality service delivery was enforced by organizational culture accepting low service standards as standard practice.
of the knowledge citizens possess vital (12). Both the 1999 and 2002 interviews showed little information flow from citizens to municipalities. Municipal authorities complain about citizens’ passivity, their lack of public interest, and their self-interestedness. Citizens complain about municipalities’ lack of care or interest in their welfare. In Estonian municipalities, the interviews demonstrated a lack (almost none) of channels for information flow from citizens to local governments. Citizens who wish to communicate with government must find their own way to communicate by finding an appropriate administrator willing to listen to them.4

Through different common projects and co-operation between municipalities and the public, citizens can express their opinions – in 2002 more than in 1999. Yet, these opinions must be acted upon – and this action reflects the real level of interaction with citizens. Many respondents pointed out that the Estonian public sector must be more willing to accept public input throughout the whole process of service delivery at the many different levels of governance. Such feedback would promote continuous public sector improvement, leading to organizational transformation and increased citizen participation – especially at the local level.

Many organisational factors affect such information flow. Both administrators and the municipalities’ stakeholders should find ways of obtaining more accurate and timely information, which would improve decisions. Wang (1997) would argue that “better information flow does not make an organisational culture less hierarchical and more open” (87). Yet, such flows – especially if incorporated into a standardised system – would still represent a strong precondition for increasing quality of governance processes. The “digital gap” between those that have ICTs and those who do not should be taken into account by municipal development strategies (Kalkun, Kalvet: 2002: 1).

**Importance of Human Capital**

The quality of governance at the local level in Estonia will be increased by augmenting human capital within the civil service. As a small state administration, Estonia engages relatively few people in its activities, limiting the generation of ideas (Randma, 2001: 46). Small countries must compensate for their lack of manpower by having high quality staff.5 Improving governance processes (and the use of human capital) requires replacing direct supervision and line-of-command type management for task and goal oriented management which provides

---

4 Kalkun and Kalvet (2002) have shown that public services are widely perceived as highly personalised in Estonia. Citizens link the service with the individual service provider – noting that different administrators require different documents and the civil servants must be met in person. Results from the 2002 interviews did not support this view even if they may still be a general belief in society that specific administrators matter.

5 The EU also stresses the importance of recruiting, training and maintaining the necessary staff required in all relevant areas and bodies (Negotiation Chapter 21, April 2002).
more flexibility, discretion and the capacity to co-ordinate the public tasks with network partners. Improvements in the quality of governance cannot only be driven just by senior administrators or by one or two individual leaders – human capital must be distributed widely throughout the organisations.

Developed managerial capacity must be used in the public administration. According to the interviews, many local authorities accomplish less than they are able – implying that, “the challenge ... is to capitalize on the advantages of close personal contact in small societies, where organisation are represented within people rather than through formal institutions” (Randma-Liiv, 2002: 387). “Personalism” in small societies may (but not necessarily must) provide small states with an advantage in developing co-ordination mechanisms and participative decision-making.

A more secure working environment, reasonably good entrance qualifications and growing respect towards civil servants are seen as ways by which the public sector might still attract the best of human capital in spite of lower salaries (Godsell, 1994: 104-115). While respect towards Estonian civil servants remains rather low, many respondents pointed out that staff skills and knowledge have improved in Estonian local authorities, especially in bigger cities – even if less than expected. The retention of human capital appears to be more different than the development of human capital. With more career opportunities and frequent career changes, Estonian municipalities face “brain drain”, as unsatisfied but qualified civil servants take posts in the private sector or EU institutions.

Based on the interviews, Estonian public service users are not very satisfied with the current quality of public service. Obtaining these services is too complicated and time consuming, public administrators do not always communicate well, and adequate/updated information is difficult to obtain. As Leadbeater (1999) argues, “great tides of information wash over us every day. We do not need more information; we need more understanding” (29). More understanding (of public services) is needed for higher expectations about public services.

Complaints about public service often stemmed from lacking concepts of quality service. Public administrators do not know what kind of service to produce and citizens do not know what kind of service to expect – complicating any evaluation of service quality. Lovell (1992: 396) claims that the improving service quality starts with clarity of vision. Both city governments and the citizens would benefit greatly by defining a general concept of quality service in Estonian municipalities – such as through implementing citizen’s charters. Yet, citizens do not want “visions” or “processes”, they need better government (Holmes, 2001: 3). If the public servants behave transparently and are willing to co-operate and include other stakeholders in public affairs, they are practising good governance.
The lack of accumulated knowledge about different service improvement practices and innovations often leads many local authorities to constantly “reinvent the wheel” when starting a new project or implementing new ideas. Often, off-the-shelf approaches are adopted without regard for the local context, as municipalities try to implement ideas from a neighbouring municipality or a twinned municipality in another European country.

Conclusions

No revolution has occurred in the interaction between Estonian local authorities and the citizens – the public bureaucracy still must follow the same legal, socio-economic and organisational principles while seeking to provide better public services. Municipalities should, in partnership with all involved parties, actively develop the competencies needed for good governance – thereby improving the quality of life and promoting local level change. The effect of ICTs on local service delivery depends on whether they cause real change, perceived change (which can also become “reified”) or ambivalent effects through the development of self-managing practices and the emergence of new network structures which lead to the foundations for better governance.

Implementing the principles of good governance also depends on the mental and physical organisational capacity – the ability and willingness to implement good governance practices. An appropriate legal and institutional infrastructure, necessary financial resources, a strongly positive attitude of political and administrative leadership represent the most important preconditions. Strengthening the public service represents the most important step toward improving Estonian local governance processes, as governance problems stem more from a lack of well-qualified and motivated civil servants than from poorly designed administrative structures.

References:


Challenges for Effective Health Sector Governance in Hungary: Co-operation between the Medical Profession and Government

Pavel Ovseiko

The results [of health care reform] is a difficult process of negotiation between key actors as defined by each society’s history, traditions and culture. – R. Saltman and J. Figueras (1997).

Introduction

The revolutionary transformations at the beginning of the 1990s brought about organisational, financing and technological changes in the Hungarian health sector. Today, the health sector is no longer financed via general taxation and run by the central government; hospitals and doctors can have access to modern management and administration technologies and up-to-date equipment and drugs. These changes, however, led neither to considerable improvements of the health of the Hungarian population, nor substantial equity and efficiency gains for the Hungarian health sector. Today, public money is often spent on new hospitals and wards (even when no evidence exists that they are required) or on expensive equipment and drugs even when their cost-contained counterparts could be used. The challenge, therefore, is to increase the effectiveness and efficiency of the existing health system. This paper addresses one of the fundamental aspects of this challenge – effective health sector governance – namely the capacity of the Government to implement policies that both effectively and efficiently solve existing health sector related problems (Hay, 2002).
Three problems account for the inadequate effectiveness and efficiency of the Hungarian health sector. First, there is a widespread belief that curative health care can retroactively improve the health status of the population (Mihályi, 2002). However, achieving and maintaining health is not primarily a matter of curing illness. In general, curative health care factors account for no more than 20% of factors affecting health status. Along with the physical and social environment, life style, and in particular, dietary, tobacco, and alcohol habits, are the most important exogenous determinants of health. The most significant health gains can, therefore, be achieved by improving environmental, social and economic conditions that influence one’s ability to make health-enhancing life-style decisions (Evans, Barer and Marmor, 1994). As such, measures of public health concerning health promotion, hygiene, sanitation, epidemiology, environmental and occupational health and safety should be the primary measures of a health sector reform seeking to significantly improve the health of the population. Inevitably, such reform cannot yield positive results immediately. Health sector reform seeking to substantially improve the population’s health should emphasize preventive rather than curative measures and it should be carefully planned with a long-term view. Second, Hungary inherited from the previous Socialist health system a very strong focus toward inpatient rather than outpatient care. Inpatient care is costly; therefore, efficiency can be gained by treating patients (when it is appropriate) through outpatient care. Finally, rent seeking, free riding and moral hazard behaviour – examples of the intentional abuse of public funds and facilities by both doctors and patients – hinder efficiency and equity improvements in the health sector. Also, accidental mismanagement accounts for considerable efficiency losses. Thus, through regulation and policing, introduction of incentives for efficient performance, and professional education of hospital managers, existing health sector arrangements can be made more efficient and equitable.

Successful health sector reform cannot simply identify problems and their potential solutions. The health sector governance system should be able to handle the reform. Many well-grounded proposals for reform failed simply because the health sector governance system could neither implement nor sustain the

3 Preventive health care measures are difficult to implement not only because of economic and political challenges facing the Government, but also because of the moral hazard problems affecting the population. When people know that social health insurance pays for medical treatment, they do not intentionally damage their health, but rather take fewer measures to prevent injury and illness – and thus require medical treatment.

4 Often, intentional health care system abuse by patients reflects the problem of separating health care from elderly care and social assistance. For example, the lack of nursing homes or visiting nurses encourages many elderly patients to seek help in hospitals. Another example concerns many poor people, especially in impoverished Eastern part of Hungary who use their publicly funded free access to drugs to obtain drugs for their families, relatives in Romania and Ukraine, or to simply sell the drugs in order to make a living (Stubnya, 2003).
proposed policies. Since the waning of the time when revolutionary transformations were possible, the development of the health sector is becoming more “path-dependent” and bounded to incremental improvements (Wilsford, 1994). Radical changes, especially ones that require new institutions, are also procedurally expensive. Thus, reforms should refrain from dreaming about costly radical changes and work on figuring out the nuts and bolts of feasible incremental improvements. To put it bluntly, the whole debate on health sector reform should be re-framed in terms of effective health sector governance. Such a reframing should begin with a careful investigation of interest formation in the health sector and how transition-era reforms affected the problem-solving capacity of the health sector governance system. Since 1989, the Hungarian health sector has undergone changes in three directions: democratisation, liberalisation and decentralisation.

Changes in the Hungarian Health Sector Governance System

Democratisation superimposed political competition and uncertainty on the health sector governance system every four years and promoted short-term horizons for reform. Theoretically, political competition should result in a sound health sector reform plan resulting from competition between rival political parties. In practice, however, health care reform never tops the political agenda and competing political parties do not have clear positions about fundamental health sector financing and organisation issues. During an election, the non-incumbent political party often does not develop a plan for health sector reform – but concentrates on issues that can help win the general election. If, or when, the non-incumbent political party takes office, it takes the new government a year to implement primary electoral pledges and then another year to develop the vision of health sector reform it failed to develop during the electoral campaign (Magyar, 2002). Having two years in office left, the government sets aside the last year preparing for the next election. Thus, the government has just a year left for reform; too small a time to effectively implement comprehensive health sector reform. As such, having a short time horizon, the government wants to minimise or avoid costly and risky reforms and thus focuses on crisis measures, incremental changes and symbolic politics.

5 While health care reform never tops the political agenda in the interim, it is still a very sensitive issue and the government avoids ambitious reforms in the election year.
6 As a solution for the short time horizon problem, Vice-President of the Hungarian Medical Chamber Dr István Szilvási proposes restoration of the monarchy in Hungary. This shows that, values of democracy and effective health sector reform do not necessarily go together. Consequently, survival of democracy in Central and Eastern Europe may be endangered by the inability of democratic governments to solve problems of the health sector.
Democratisation has also enabled the medical profession and other agents of the health sector to influence the health policy process. In doing so, they bring their expertise into health policy-making, legitimising new policies, encouraging policy sustainability, as well as helping the Government to avoid costly mistakes. Yet, while these health sector agents can informally influence health policy process, they lack transparent institutions which would facilitate their participation in health policy process. Democratic participation by health sector agents in the health policy process though such transparent institutions is a powerful instrument of effective governance.\(^7\) Three factors will drive the success of any new health policy:

- transparent democratic participation of the medical profession and other health sector agents in health policy formulation and implementation;
- scrupulous calculation of costs, benefits, and opportunities that a new policy produces (including benefits from under-the-table payments and opportunities provided by adverse incentives);
- effective regulation and policing of the health sector.

Yet, democratic participation of the health sector agents comes at a high price for the public good. Doctors, pharmaceutical companies, commercial health providers, and other health sector interest groups want the public to pay more for health services and drugs. The more affluent members of the public who can afford paying for health care also want to have expensive health services and drugs. In sharp contrast, the general public want more less expensive (cost-contained) health care services and drugs. In principle, health sector reform represents a political struggle between the general public interest (as represented by the Government) and the private interests of doctors and the medical industry. In practice, given the practice of rent seeking, the Government sometimes supports health sector interest groups. Affluent members of the public who can afford expensive health care also side with the health sector interest groups who want higher payments given immediate access to expensive and high-quality health care rather than considerably delayed cost-contained health care. The general public interest therefore appears to be on the losing side of the aforementioned struggle.\(^8\)

Health sector interest groups are successful both in formal negotiations and in clenching shady deals with the Government because they are financially power-

\(^{7}\) When doctors and other health sector professional work in a system (which seemed effective and efficient to its designers but not for people actually working in this system) these people have two options. First, if the economic benefits of non-compliance are higher than the penalties, they will not comply with the system. Second, if the system does not serve their interests but non-compliance penalties, they will either covertly “play” the system, or openly rebel against it.

\(^{8}\) America provides a far more dramatic example of how private interests vested into the health sector counteract reforms. The failure of the Clinton administration to establish a comprehensive public health care system in the United States has left about one fourth of Americans without health insurance in the most expensive and technologically advanced health care system in the world health system.
ful and politically well connected. Patients' rights groups and other institutions of civil society that could effectively counterbalance the influence of health sector interest groups take longer to develop. Participation, therefore, of health sector interest groups in the health policy-making process requires democratic political institutions that can effectively resist private interests and maximise public good.

**Liberalisation** of the health sector in many cases used market mechanisms to reduce the misallocation of funds. For example, under the previous health sector financing system, health sector institutions were funded according to historical trends rather than current demand. The introduction of Diagnosis Related Groups (DRGs) in hospitals and a German-inspired point-billing system in outpatient clinics attempted to establish evidence-based financing. Liberalisation also dramatically reduced the role of state health care provision, regulation and policing in the health sector – allowing doctors and the medical industry almost unlimited freedom to pursue their private interests at the public or the patient's expense without private mechanisms for regulation and policing (such as independent health insurance funds).

The introduction of fee-for-service financing system under the National Health Insurance Fund (NHIF) created incentives for uncontrolled health care spending. The NHIF cannot police doctor and patient activities by regulating treatment procedures and limiting expenditure on certain types of treatment. The NHIF passively pays bills for all prescribed drugs and treatments including unjustifyably expensive ones. The state supplies doctors with health care facilities and basic salaries, yet does not control their professional conduct. Arguably, a fully privatised health care system would be far more efficient. However, *inter alia*, doctors oppose privatisation as they already run their *de facto* private practices using public facilities without paying for the equipment, office space, and auxiliary staff. Also, as their *de facto* private practices are part of the shadow economy, they do not pay taxes.

**Decentralisation** has promoted stability for the health sector. Local authorities can ensure that the health care facilities are maintained and developed better than the central government could maintain them. Decentralisation, however, also generates inefficiencies in health sector funding. For any given locality, a hospital means security and so local governments want to secure health care facilities that are as good as the best clinics in Budapest, even if there is no justified need for such facilities. Furthermore, local government health care divisions still do not pos-

---

9 Politicians' short time horizons stimulates them engage in corrupt transactions (shady dealings). Given that politicians are in office for only four years, they are very keen on maximising personal pay-offs from their positions.

10 In modern health care, more serious cases should be treated at a higher institutional level. Having a full range of health care facilities in every locality is not only inefficient but also dangerous for patients. In localities where frequencies of certain cases are low, patients should be referred to hospitals where doctors are experienced enough to deal with special cases.
sess enough expertise to supervise the hospital managers (who want to have more hospital space, expensive equipment and staff).\textsuperscript{11} Altogether, compared to other countries, the Hungarian hospital system is not overly fragmented, but it lacks, for the present level of decentralisation, sufficient mechanisms of planning and co-ordination (Kovácsy, 2003). One example of the lack of co-ordination comes from decentralisation's creation of free-riders due to a coherent system of health sector financing. Patients from small villages are referred to hospitals in nearby towns and cities. Yet, these small villages do not participate in financing the hospitals to which they refer patients (Magyar, L., 2003).

**Interests and Organisation of the Medical Profession**

Despite the public perception of doctors as a special social “caste”, they are just normal rational human beings. Apart from providing health care for the patients and mastering their profession, doctors’ interests often focus on earning a decent living with less effort. Yet, doctors are special in the sense that, apart from their official salaries, they can earn up to 90% of their actual income from unofficial or under-the-table payments.\textsuperscript{12} The pressure for such unofficial payments comes both from patients and from the medical industry. According to national tradition, many patients feel almost obliged to offer doctors money or a gift as a kind of tip in gratitude for the service, or even as a gesture of social solidarity with doctors who are believed to be underpaid. In the majority of cases, however, under-the-table money is not a tip but rather a bribe or payment for a private service (Kornai, 2000). Patients bribe doctors in the hopes of receiving a better prescription, securing more attention, jumping a queue, being referred to a hospital in order not to pay for the prescribed drugs, receiving sick leave, having a privilege of being treated in a high-profile hospital or being treated by a leading specialist.

\textsuperscript{11} Having limited funds for the local hospital maintenance and little competence in health sector financing and organisation makes local authorities unable to promote health care reform seeking to foster effectiveness and efficiency. Indeed, as the local authorities appoint the hospital management, possible politicisation of a supposedly technocratic process of hospital management may even create room for rent-seeking behaviour.

\textsuperscript{12} Hungarian terms for under-the-table payments are hálapénz (gratitude money) and, unique to the health sector, paraszolvencia (pay on the side). Before the World War II, private doctors charged patients an extra fee (paraszolvencia) in order to raise money for a “small fund” (kis kassa). Resources from this fund were distributed among young doctors and the auxiliary staff in order to provide them with a material incentive to stay in the profession. Even now, under-the-table money is probably still redistributed in some exceptional departments and clinics. Even if such professional solidarity exists among doctors, patients draw little consolation. Patients used to pay high fees for privately-owned health services in the past and continue doing so under the de jure publicly-funded health system today.
Under-the-table money has negative effects on the equity, effectiveness and efficiency of the health sector. As far as equity is concerned, under-the-table money discriminates against patients who are unable to offer the money and patients from disadvantaged backgrounds. With regard to effectiveness, under-the-table money creates incentives for doctors to perform their duties poorly as gratitude money creates incentives for doctors to treat the patient as long the patients pay and to prescribe as many expensive drugs and treatments as possible. The doctors, therefore, may continue treatment even if the best interest of the patients is to be referred to another specialist doctor. The most devastating effect of under-the-table money is the hindrance of health sector efficiency. Under-the-table money creates inefficiencies by promoting free riding (doctors treat patients privately using public facilities without paying even for amortisation of the public facilities). These payments create moral hazards, as many conditions are “over-cured” or “under-cured”. Over-curing may occur as patients are seen by doctors more often than needed. Expensive treatments are also unnecessarily administered and costly brand-name drugs are prescribed rather than cost-contained generics. Under-the-table payments may generate the opposite kind of inefficiency in “under-curing.” Given the low reputation of the outpatient, some people bribe doctors in primary care in order to receive a referral to the hospital. As a result, many conditions that could be treated in primary care are treated in the hospital at a much higher cost. Lastly, under-the-table money fosters development of the shadow economy because doctors receiving under-the-table money do not pay any taxes.

Under-the-table money paid by pharmaceutical companies, medical equipment producers, and commercial health service providers involves moral hazards

13 Under-the-table money may discriminate against patients with disadvantaged backgrounds because doctors perform only part of their duty on the payment basis. When specialist advice is required, a patient may need to belong to particular social groups and networks in order to get access to the highly qualified doctor’s expertise. If the patient in need of such expertise belongs to a social network where someone possess information about a highly qualified doctor (such as the doctor’s friend, colleague or a former patient), the patient may negotiate payments for the needed treatment with the doctor. As an informal rule, doctors usually do not accept money from fellow doctors and members of their families and are willing to prioritise treatment of such patients – reflecting the same solidarity observed in other countries such as the. USA (Hsieh, 2003). Usually, belonging to the right social network depends on social and economic status.

14 There is evidence that at least 30%-40% of doctor-patient encounters are not justified on medical grounds (Mikó, 2002).

15 Bribing doctors for treatment in hospitals is observed mainly in Budapest and a few other big cities with well-known hospitals. Residents of small towns and rural areas normally do not participate in such bribery given the expense of travelling to a big city and paying gratitude money at big city rates. However, the receipt of free drugs and maybe even food may motivate the dwellers of small towns and the rural area to bribe doctors in order to be treated in a local hospital.

16 Inpatient care can be up to ten times higher than outpatient care for identical medical procedures.
and free riding behaviour, and also fosters the shadow economy. In order to sell more drugs, pharmaceutical companies pay doctors up to 10% of the cost of the prescribed drugs, offer gifts, or invite doctors to “conferences” in exotic places (Magyar, 2002). As pharmacies are private profit-maximising companies, they gain by selling information about customer prescriptions to pharmaceutical companies. As Hungarian doctors are well trained, and that currently nobody apart from them controls their activities, they also have a vested interest in accepting commissions by pharmaceutical companies for medical studies and experiments on new drugs and treatment procedures (Pásztélyi, 2002). Despite doctors’ use of public facilities and the jeopardisation of the health of the human subjects involved in the studies, neither the public, nor the human subjects receive any financial compensation. In order to boost sales, medical equipment producers provide doctors in managerial positions (those who can negotiate equipment purchases on behalf of public hospitals) with a commission (ibid.) As a result, instead of increasing the utilisation rates of existing equipment and purchasing only needed and cost-contained equipment, hospitals have incentives to purchase new expensive equipment. For example, in the 1990s, purchases of expensive specialised equipment such as CT scanners and MRI systems increased dramatically, whereas almost no funds were left to replace and upgrade conventional cost-contained X-ray machines (Mihályi and Petru, 1999). Commercial health service providers also supply doctors with incentives to refer the patients to them.

Not all doctors earn under-the-table money. The ability to earn under-the-table money often depends on belonging to certain medical specialties, having

17 Such pharmaceutical company practices are also well-known in Western Europe and America. Clearly, they were imported to Hungary by overseas pharmaceuticals and one can only guess whether it was a naiveté or purposeful ignorance of the policy-makers that prevented them from passing a law banning doctors from accepting gifts from pharmaceutical companies until 2000.

18 Even if doctors were willing to pay the hospital or their human subjects, they could not officially, as the sphere of medical studies is not precisely regulated.

19 The cost of such equipment in Hungary is sometimes higher than in Western Europe or Northern America.

20 In 1998, the Hungarian Audit Commission together with the British Audit Commission found that in some cases instrument utilisation rates in the laboratory and imaging services were up to twenty times lower than they should be. Such underutilisation can be explained by both low actual utilisation rates and “private” use of the public instruments by doctors (Mikó, 2002).

21 Historically high-positioned doctors (alone or with their assistance of their close associates or family members) created the majority of such services. Therefore, on the local level, family, collegial or patron-client relations between doctors may determine referrals to such services. On the National level, when politically influential doctors created whole new branches of commercial health services (such as high-tech diagnostics and dialysis), they ensured that the National Health Insurance Fund had high reimbursement rates for their services. The NHIF’s reimbursement rates for the provision and use of high-tech equipment are extraordinary high due to high-tech producer lobbying power.
a high professional reputation and a managerial position. Some doctors do not accept under-the-table money as they believe accepting such money is unethical. The overwhelming majority of doctors are against under-the-table money because of ethical, professional or economic considerations. The majority of doctors, however, who can earn under-the-table money, do so. Eliminating such under-the-table money is difficult to root out because the current health care system does not provide doctors with salaries commensurate with their unique qualifications, skills, and training. Doctors’ official salaries in Hungary are equal to salaries of other public sector employees, but are lower than wages in industry (especially lower than the incomes of bankers and businessmen). Highly educated and hard-working doctors should compete for high salaries with other professions and therefore, as a result of maximising behaviour, doctors opt for securing a decent income via shady dealings with patients and the medical industry rather than earning only mediocre official salaries.

Factors such as organisation also affect under-the-table payments. The organisation of the Hungarian medical profession is extremely hierarchical. The more experienced a doctor is, the more he or she can earn from patients. Also, given that currently doctors (not managers) run hospitals, the more experienced a doctor is, the more managerial power and access to public money he or she has. Senior doctors, therefore, control most of under-the-table money and younger doctors wait in line for their turn. Furthermore, the lion’s share of under-the-table money can be earned in the most prestigious hospitals in the most affluent Hungarian regions. Thus, under-the-table money is an incentive for doctors to excel in the profession and to move to the best hospitals, and under-the-table money promotes a meritocratic hierarchy in the medical profession. When newly qualified doctors enter the profession, they earn low official salaries and have little chance of receiving under-the-table money. The more they excel in the profession, however, the better the chance they have of receiving under-the-table money. The longer they are in the profession, the more vehemently they oppose reform, reducing their chances of securing a high income through earning under-the-table money. The calculation that turns middle-aged doctors into supporters of under-the-table money is simple: despite earning low salaries now, they are gradually getting closer to the time when they can earn a great deal of under-the-table money.

22 Economic considerations may stem from the high transaction costs of dealing with under-the-table money which takes time that doctors could devote to their patients. Doctors believe that their knowledge and skills to cure patients should be officially paid better than their entrepreneurial and cash management skills to deal with under-the-table money.

23 The medical profession’s hierarchy can roughly be compared with the hierarchy of the compulsory military service. In the compulsory military, everybody is against the abuse of novices by their superior officers; but when the abused novices climb in rank, they take similar advantage of their more senior position (Kovácsy, 2003).
There are both positive and negative effects of under-the-table money on the development of the medical profession. On the positive side, under-the-table money supplements official salaries and, by doing so, keeps doctors in the profession.\textsuperscript{24} During transition, the gaps in income between different professions became dramatic and the publicly funded medical profession found itself amongst the losers of transition. In the 1990s, competition to enter the medical profession decreased dramatically. A prospect of earning a decent living via under-the-table money, therefore, may provide mid-career doctors with a rationale not to leave the profession.\textsuperscript{25}

While the positive effects of under-the-table payments are dubious, there are unquestionable negative effects on the development of the medical profession. Under-the-table money provokes a gerontocratic crisis. A meritocratic hierarchy in the medical profession is also a gerontocratic hierarchy – thus preventing talented and ambitious youth from pursuing a medical career.\textsuperscript{26} In order to secure under-the-table money, a senior doctor needs to treat patients himself, as young doctors do not have enough experience to see patients and thus collect these payments. Instead, young doctors mainly do paperwork for senior doctors. As such, in the 1990s, many young doctors (30-40 years old) chose not to waste their time in waiting for their turn to practice medicine and to earn a decent living and so left the profession (Stubnya, 2003). Some moved into new commercial health services, such as diagnostics and dialysis, into the medical industry, the sales and marketing of medical equipment and pharmaceuticals. Others went to work abroad or left the medical profession altogether.

The uneven distribution of under-the-table money among medical specialties is another negative effect of under-the-table money on the development of the medical profession. Some specialties are thriving, such as gynaecology, while others such as radiology are dying out. Under-the-table money also often determines the abilities of medical specialties to lobby for their specific interests; and more affluent specialties can better lobby their interests both in the medical

\textsuperscript{24} The medical profession during Socialism enjoyed a rather high status. Furthermore, there was little variation in salaries and wages between various professions. Magyar (2002) noted, “everybody was underpaid and so were doctors, money did not count that much.” The medical profession's prestige and the personal interest to pursue a medical career primarily influenced people's decision to enter the medical profession (Szilvási, 2003). On the other hand, senior doctors earned under-the-table money from patients during Socialism as well; so doctors were less “underpaid” than people in other professions.

\textsuperscript{25} For young people considering a medical career, however, the prospect of earning a decent income through under-the-table payments probably does not encourage selecting a medical career as it is risky to invest six to ten years in a medical education only to wait 10 to 15 years to earn the under-the-table money needed to catch up with peers who took more lucrative careers.

\textsuperscript{26} As noted previously, some exceptional departments and clinics redistribute some under-the-table payments to young doctors and the auxiliary staff. Yet, most under-the-table money goes to senior doctors.
profession itself and in policy-making institutions. Such income-based influence inevitably sparks conflicts between different medical specialties and fragments the medical profession.

Another negative factor is that the Government finances and organises the health sector in a way which contributes towards growing health sector inefficiencies. Given rising costs in the 1980s and early 1990s, there was a drive to create a strong and independent system of general practitioners (GPs) who were supposed to act as gatekeepers. Although such a system was created, these general practitioners do not act as gatekeepers, but on the contrary, send patients directly to higher levels of the health system (Kovácsy, 2003). General practitioners are paid according to the quantity of patients they serve (capitation), rather than their actual performance. The incentive for GPs, therefore, is to have healthy rather than problematic people. General practitioners’ official salaries are rather high compared to official salaries of doctors in clinics and they can also earn under-the-table money from pharmaceutical companies for prescribing their drugs. Still, GPs have a poor chance of securing under-the-table money from patients. As a sector, GPs have incentives to quickly prescribe the drugs promoted by the pharmaceutical industry and then to refer problematic patients to specialised clinics (in order to minimise the workload) rather than provide definitive treatment.

In the specialised clinics, doctors have incentives to keep the patients. Official salaries of doctors in such clinics are performance based. Doctors, therefore, have incentives to prescribe as many expensive examinations and treatments as possible in order to earn higher salaries. Also, doctors in specialised clinics have a far better chance to earn under-the-table money from the patient than do general practitioners. From the patient’s perspective, they are also interested in being treated in hospitals as they do not need to pay anything for the prescribed drugs and they believe that hospital treatment is much better than in a GP’s practice or outpatient clinic (Kovácsy, 2003). Empirically, two-thirds of the outpatient clinics are affiliated with inpatient clinics (hospitals) and have a common management. Given the fact that the cost of inpatient care is up to ten times higher than the cost of the similar outpatient care, the common management creates demand for inpatient services (ibid.). When a patient comes to an outpatient clinic, management incentives militate against providing definitive care on the spot and toward performing a full range of available tests and examinations (and then to refer

---

27 Performance-based doctor salaries led to uneven payments in different medical specialties. The long-run implication of such uneven payments is that losing specialties may disappear (Szilvási, 2003). The re-establishment of salaries based on working hours can be a solution to this problem (Dózsa, 2003). Yet, generally, the inability of the Hungarian government to take all factors into consideration and to make correct calculations are more problematic than Hungary’s performance-based system of payment.
the patient to the hospital). Often, inpatient and outpatient doctors are the same people and cases exist when doctors in outpatient clinics referred their patients to themselves in hospitals (ibid). Hospital care presents a doctor with a better chance to secure under-the-table money from the patient. Therefore, when the inpatient doctors also serve as outpatient doctors, the doctor’s referral and the patient’s hospitalisation may be affected by the doctor’s expectation of under-the-table money from the patient.

The “Dark” Power of the Medical Profession

In the 1990s, the Hungarian Medical Chamber and Colleges of medical specialties were re-established (or established from scratch). These organisations were envisioned to be the self-governing bodies of the medical profession in the area of ethical and professional conduct and were expected to represent and promote the health policy-making interests of the medical profession and its specialties. Currently, however, these organisations act more like trade unions (Kovácsy, 2003). They primarily debate with the Government on salaries, wages, and the cost of services. Given the hierarchical organisation of the medical profession, these organisations tend to represent the interests and the vision of the top of the hierarchy. Since the establishment of the medical profession, the profession enjoys far more opportunities for development and thus the state should provide more funding. At the same time, senior doctors are keen on preserving the current situation where they have managerial power to use public funds on behalf of their hospitals and public facilities for treating patients privately. As reforms are usually damaging for the medical profession, the Chamber and Colleges are keen on preserving the status quo in the health sector by opposing Governmental initiatives. On the one hand, such opposition benefit the general public and the public good, as badly planned reforms may be stopped. On the other hand, progressive reforms are also likely to be blocked.

The Chamber and Colleges are the most outspoken representatives of the medical profession, the power of the medical profession also resides in the National Institutes of medical specialties. The National Institutes may compete with the Colleges as directors of the Institutes are appointed by the Government. If the Government is displeased with a College’s position on a certain issue, it may turn for support to the National Institute of the respective medical specialty. In many cases, however, leaders of Colleges and Institutes are the same people. At any rate, the Chamber, Colleges, and National Institutes have no legal veto-power in health policy decision making and positions are translated into policies only if the Government desires it. Otherwise, medical profession organisations must lobby informally. Yet, the power and interests of the medical profession are not always consolidated and institutionalised. The medical profession is ridden with conflicts between various specialties as well as with personal conflicts between
leaders and there are influential figures in the medical profession outside these organisations.

While the medical profession may not have formal veto-powers over health policy-making, it has a number of informal veto mechanisms. First, on issues related to health sector financing and organisation, the politicians, the public, as well as the majority of doctors are considered “the lay people” who are consulted on particular issues (Mikó, 2002). Politically-engaged doctors can easily influence the public and politicians on the issue of health sector reform – they do not need to manipulate the lay people’s opinion, they simply create it (ibid.). Second, politicians should not underestimate the power of the “fourth estate”. When they disagree with the medical profession, doctors use the mass media to influence politicians, and given that health care reform is a salient issue, the Government tries to avoid criticism in the mass media. Third, doctors are highly likely to know the political and mass media elite as their patients. Hungary is a small country where the majority of powerful politicians, influential journalists, and politically active doctors live in Budapest. It is even possible to guess exactly in which districts of Budapest they live and in what baths they bathe (Adam, 2002). As the “top cream” of their profession, politically influential doctors work in the best hospitals. Knowing each other helps to develop trust and common interests and being part and parcel of an elite social network probably allows doctors to influence other network members’ opinions and lobby its interests. Dózsa (2003) noticed that the most important thing to know for successful lobbying is a decision-maker and his telephone number. Fourth, medical professional organisations, partly working as trade unions, can achieve their goals by warning the Government of serious industrial actions or even civil disturbances. Fifth, the Hungarian administrative elite dealing with the health sector have been traditionally educated as doctors and in former times, the Ministry of Health even employed practising doctors on a part-time basis. At the present times, leaders of the medical profession have become leaders of the Ministry of Health. As such, when the Ministry of Health is actually the Ministry of the Medical Profession, a certain degree of solidarity probably exists between doctors in state administrative positions and doctors in leading professional organisations. Hungary is a small country and has only four medical universities – so doctors in administrative positions and leaders of the medical profession probably know each other from their student years (Dózsa, 2003). Finally, both the medical profession and the medical industry have an interest in benefiting from public money. The medical industry could well back financially the medical profession when the latter lobbies for their common interests. Just as when the income of doctors comes from

---

28 In the case of younger doctors disagreeing with more senior doctors, senior doctors determine the policy as younger doctors do not have a voice in the professional organisations.

29 Although medical professional organisations sometimes successfully use this strategy in negotiations with the Government, they do not actually organise industrial action.
shady dealings with the patients and the medical industry, the sources of the medical profession's political power are also rather “dark” (Kovácsy, 2003).

**Games the Medical Profession and Government Play**

Does health sector reform potentially represent a co-operative or competitive “game”? In this game, the two major players, the medical profession and the Government, take decisions that affect the funding and organisation of the health sector. The Government must deliver health services to the population in accordance with the Constitution. Yet, the Governance cannot significantly increase public expenditure on the health sector because public funds are scarce and the Government cannot print money or over-spend due to the deleterious effects of potential inflation. The Government is thus under pressure to organise the health sector in a way that reduces public expenditure and increases involvement of the private sector. If the Government does fulfill its constitutional responsibility of providing health care, it increases its chances of being re-elected. The medical profession, for its part, must cure people, advance medical knowledge and skills, as well as ensuring that medical professionals are employed and earn a decent living. In the long run, the privatisation of health service providers may better maximise the interests of the medical profession. However, the interim transaction costs during the transition to a new health system will burden the medical profession's elite, who wish to preserve their use of public funds and facilities (as well as the autonomy of the profession). Altogether, health sector reform can be thought of as a non-zero-sum game with the result that co-operation between players can yield better pay-offs for them.

The government-medical profession game is an example of the prisoner's dilemma game, in which the medical profession and the Government need to co-operate in order to maximise the health sector's performance. Under-the-table money and adverse incentives (stemming from maximising behaviour of patients, doctors, and the medical industry) cause inefficiency in the current health sector arrangements and thus requires co-operation between the medical profession and the Government to root out these problems. Rooting out under-the-table payments and adverse incentive problems require either changing the incentive system or finding marginal improvements in the existing health sector. As changing the incentive system underlying the health care sector is difficult and expensive, the performance of existing health sector arrangements should be improved. An effective system of regulation and policing is the best way of improving existing health sector arrangements.\(^\text{30}\) Such regulation and policing would

---

\(^\text{30}\) Regulation and policing promote the effective performance of any type of health sector arrangements. In a private health care system, patients have much less incentive to bribe doctors – they simply need to pay more. The medical industry and health service providers, however, still have a rationale to pay doctors for prescribing their drugs and treatments – an arrangement which can curbed through an effective system of regulation and policing.
involve the establishment and enforcement of health care standards, stipulating that patients should receive cost-contained and effective treatment procedures.

The payment of under-the-table money and the existence of adverse incentives are the result of the Government’s inability (or unwillingness) to increase health sector salaries and include the medical profession in policy making. Regard- ing salary increases, given the current economic and political circumstances in Hungary which militate for budgetary contraction, the publicly funded health sector is a burden to the Government (and the 50% increase in health sector salaries made by the current Government has been severely criticised by the IMF). In Socialist times, the government set lower than optimal health sector salaries and wages expecting that patients would use under-the-table money to “top up” the salaries of doctors and the wages of the auxiliary staff. Socialist governments also deliberately did not create formal channels of medical profession policy influence which could have acted to advocate health sector expenditure increases and the scrutinising of governmental policies. Post-Socialist governments could be consciously or unconsciously continuing the practice of their Socialist predecessors while the medical profession consciously and opportunistically defends the payment of under-the-table money – as shown by the Hungarian Medical Chamber endorsed Medical Ethical Code which allows doctors to take under-the-table money from patients if it is paid in gratitude after receiving treatment.

From the point of view of the medical profession, the payment of under-the-table money and the existence of adverse incentives is supported by the existing system’s costs and benefits. If under-the-table money constitutes up to 90% of a doctor’s income, a three-fold increase in his official salary would encourage him to abstain from accepting under-the-table money or prescribing expensive drugs. While there are costs of violating one’s ethical code and being caught, if the probability of detection is low and expected penalties are smaller then the expected benefits (especially given the current lack of policing), the doctor will act in his own material interests. Thus, an effective system of regulation and policing is needed.

Neither the government nor the medical profession can be blamed. Rather, these problems result from an interaction between the Government and the medical profession. The Government’s strategy of accusing the medical profession of corruption aims to manipulate public opinion: the public knows much more about corruption in the health sector than they do about incompetence in the Government (simply because the public deals with doctors more often than with politicians). Similarly, the medical profession’s attempts to preserve publicly funded health care is not a purely altruistic enterprise, as the well be-

31 Such reasoning reflects the current view of the Hungarian Ministry of Health and particularly its head Dr. István Mikola who argued (in contrast to previously held views) that under-the-table money was not a disease but rather a symptom of systemic problems.
ing of the current medical elite depends on the preservation this system. In the “game” between the medical profession and Government, the current situation – characterised by under-the-table money and the existence of adverse incentives –represents a sub-optimal equilibrium (or situation where neither can gain from unilaterally switching to another strategy). The Government’s dominant strategy is to accuse the medical profession of corruption, to shift the responsibility for health care problems to doctors, or to forgo increased public health spending. The medical profession’s dominant strategy is to allow senior doctors (who politically represent the medical profession) to earn high incomes and to preserve their positions on the top of the medical hierarchy.

If the present situation represents a sub-optimal arrangement, an effective system of regulation and policing (which includes health care standards for patients and treatment procedures for doctors) can increase the performance of existing health sector arrangements. The Government can no longer control the medical profession – but requires the co-operation of the medical profession in establishing and enforcing a set of cost-contained and effective treatment procedures which doctors should follow (as well as penalties for deviating from these procedures and a system of enforcement). Such co-operation might be forthcoming if the Government increases official salaries in the health sector (as doctors with high official incomes would have incentives to exclude incompetent or immoral colleagues from the profession). If negative solidarity among doctors (their defence of incompetent and corrupt colleagues, for example) still exists, the medical profession should delegate some regulatory and policing functions to the State. In return, the State should delegate to the medical profession the ability to officially participate in health policy, in order to negotiate doctor salaries, costs, and the content of medical procedures, and organisational reforms.\(^\text{32}\)

**Conclusion**

In the prisoner’s dilemma game, despite the fact that co-operation is beneficial for both players, it is sub-optimal. Each player considers a co-operative strategy, but the fear that the counterpart will not reciprocate (but rather cheat) drives both players to stick to a competitive strategy. The abandonment of their “rational” strategies in favor of an “irrational” co-operative strategy requires a great deal of trust between the players. In the case of Hungarian medical reform, such trust can be generated between the Government and the medical profession’s repre-

\(^{32}\) As previously noted, medical professional organisations also act as trade unions. If the European Union succeeds in promoting tripartite dialogue in accession countries, professional medical organisations, the medical profession will no longer need to play the role of a trade union, and trade unions of the medical profession will negotiate with the Government issues, such as salaries and working conditions.
sentatives only through the personal relationship building, which would allow for the medical profession’s participation in creating an effective system of regulation and policing.

Theoretically, the participation of the medical profession in health sector policy process is not desirable due to self-interested lobbying against reforms (even progressive ones) and increased transaction costs in terms of the time needed to introduce reforms and the resources spent on negotiations. If the Government wants to increase the effectiveness, efficiency, and equity of the health sector, then unilateral action by the Government is better than constantly seeking the endorsement of the medical profession. The experience of reforms undertaken during transition shows, however, that the Government usually does not know what course of action is beneficial for the health sector, and scrutiny from the medical profession regarding governmental reforms may prevent many regulatory mistakes. Furthermore, unilateral governmental action may cause doctors to rebel against or to “play” a system of which they do not approve or which work against their interests. Therefore, an effective, efficient and equitable health system requires the unlikely collaborative introduction of reform with both the Government and the medical profession.

If the government wishes to credibly introduce such collaborative reforms, it must “play a two-level game”: one with the general public and another one with the elite. As far as the general public is concerned, during the election campaign, the current governing party (MSZP) should pledge to reform the health sector and dub itself “the health Government.” Symbolically, the Government has already made an effort to reform the health sector, and the lack of substantial improvements in the effectiveness and efficiency of the health sector can be blamed on medical sector corruption.

While symbolic politics are important (especially in terms of elections), the government must be successful in the game with medical elites. At first glance, the Government should preserve the status quo and not proceed with any reforms that violate the interests of the medical profession elite – such as state-sponsored privatisation. Yet, the medical profession elite has neither the financial resources nor official political power to veto governmental decisions. Government (and individual government officials) could be tempted by revenues from health care provider privatisation and in the long run, the new owners of health sector facilities could become loyal supporters of the party that allowed privatisation. If

---

33 The Government has already increased salaries in the health sector by 50%, which is a purely symbolic measure, as the medical profession argues that salaries should increase by 250-300%.
34 Such privatisation may indeed preserve the status quo, as shown by the case of general practitioner privatisation. General practitioners were compelled to privatise their practices, and as they did not have money for such privatisation, the Government itself financed them.
the Government invites wealthy private investors (such as the medical industry) to participate in health sector privatisation, the costs of the loss of support from the medical profession, and even electoral support, could be compensated by the benefits of privatisation. If the worst scenario occurs and privatisation results in a health sector crisis, the governing party will lose the next election. The politicians in office who support the interests of the wealthy private investors might, however, earn more in this short term than their political careers would provide in many years: in this way, these politicians would create a solid financial base for themselves and for their party colleagues, to be able to run for office in the following election.

List of Interviews

Given that up to date publications on the subject of this paper are scarce, the paper is mainly based on a series of exploratory interviews and correspondence. People who made a significant contribution and who did not prefer to remain anonymous are listed.

Adam, Zoltan. School of Slavonic and Eastern European Studies, UCL. Interview conducted on 2 August 2002.

Dózsa, Csaba. Deputy Director, National Health Insurance Fund. Interview conducted on 12 February 2003.

Fazekas, Erzsebet. Health Editor, Nepszabadsag. Interview conducted on 6 November 2002.


Magyar, Csaba. National Heart Institute, Controlling and Quality Assurance Department. Interview conducted on 24 July 2002.


Mihályi, Péter. Professor, Department of Economics, Central European University. Interview conducted on 21 October 2002.

Mikó, Tivadar. Professor and Head of the Dept of Pathology at Szeged University (and Former President of the Hungarian Society of Pathologists). Interview conducted on 22 October 2002.
Section V    Managing the Relationship between the State and Society


Sandor, Judit (30.07.02) [Central European University], personal interview.

Stubnya, Gusztáv (11.02.2003) [National Curative Centre].

Szilvási, István (11.02.2003) [Hungarian Medical Chamber, Vice President].

Zentai, Violetta (31.10.2002) [Center for Policy Studies, Central European University, Acting Director].

References


The Failure of Public Governance in Romania

Alina Mungiu-Pippidi and Sorin Ionita

Introduction

Analysts generally believe, after observing the travails of democracy in the transition countries and especially in South East Europe since 1991, that the basic structures of Western democratic life have been installed and that superficial aspects of democratic life have been more or less accurately copied. Yet, since substantive democracy and prosperity have still not reached South East Europe, “something” essential must still be missing. This paper argues that the missing ingredient in the democratic transition process, especially in Romania, may be good governance – a coherent sets of policies developed by public decision-makers through a legitimate and transparent process which engages key stakeholders in their implementation. The Romanian bureaucracy is widely perceived as having been captured by “predators” coming from networks created by the “politics of amoral family-based relationships”.

Governance Problems in Romania

Ever since 1989, Romania has scored near the bottom of various assessments aimed at rating the transition countries. Romania has consistently scored last place in the European Commission’s annual reports evaluating the progress of candidate countries – putting the country after Bulgaria, a country that, arguably, began the transition facing harsher circumstances. The lack of capacity to design, adopt and implement public policies in a transparent and participatory way has been the reason for these ratings. The lack of such capacity has led to a sense of drift and uncertainty in Romanian society, and has demobilised many social actors that might have battled against the hardships of transition, had they only been provided with a stable environment.¹

¹ Policy shortcomings also substantially decreased the pace of social development. According to the UNDP development index (measuring a combination of education, health state and economic outcomes), the literacy rate and life expectancy showed a slight decline across the region after 1989 as did GDP per capita.
Domestic policy failures have caused the lack of consistent and sustainable social and economic growth in the past decade. Particularly, “weak governance” – poor institutional arrangements, the lack of political will and few implementation skills – explains the differing social and economic outcomes, particularly for Romania. According to Kaufmann, Kraay and Zoido-Lobaton (2002), a deficit of public governance in Romania spans many aspects of public life. Figure 1 presents scores of the quality of governance using a methodology which compiled a series of other expert analyses. On a two-point scale normalised around zero, 1 is very good and -1 is “poor”. In this analysis, Romania ranks last among Central and Eastern European countries for the quality of public governance indicators and is relegated into the second tier of countries along with crisis-torn Balkan and the former Soviet CIS countries. Worse yet, not only is the average score low, but also the quality of governance in Romania worsened slightly between 1998 and 2001.

Figure 1
The quality of public governance in Romania compared to other CEE countries – Trends between 1998 and 2001

Source: Kaufmann et al., 2002.
The quality of public governance in Romania: developments between 1998 and 2001

Source: Kaufmann et al., 2002.

No other EU candidate country has these governance trends. Even Croatia, crippled by war, seems to be pushing ahead on more quickly governance reform. Disaggregating the overall country score – as shown in Figure 2 – shows that the ‘political’ areas (‘voice’, political stability) have higher scores than the policy implementation areas (namely government effectiveness and the control of corruption). In addition, the quality of regulation has worsened significantly between 1998 and 2001. In the first decade of transition in Romania, the country has failed to follow up the political liberalisation achieved in the early 1990s with sound policies.

Sound policies are implemented because of external pressure (through channels such as aid conditionality) as was the case for the liberalisation and stabilisation measures of the early 1990s and 1997-98. They are also implemented when a bad crisis forces the implementation of a long-debated solution – such as the passing of the Freedom of Information Act, local budget reform, and the cleaning up and strengthening of the financial sector after a series of bank and mutual fund collapses nearly caused the country to default in 1999. In some instances a combination of external pressure and crisis-driven measures cause policy implementation – strong pressure from Brussels and Strasbourg improved Romania’s gloomy orphanages, for example, and a string of scandals related to international adoptions forced the government to implement a more modern system of foster care. These two factors cannot, however, work in all policy areas. External pressure or a crisis-motivated “push” may not function with the same efficiency in
other areas of economic or social policy, where standardised solutions do not exist (as they do in banking and local finance, for example). Domestic expertise is needed to filter and adapt locally the pool of international best practices.

The habits and values of elites: amoral family-based policies

Social values and attitudes compound the structural flaws identified above in working against policy implementation. Personal allegiance overtakes all other values and rational self-interest, making the policy environment unpredictable. Leaders are expected to be promoters of their protégées and clan-based loyalties take precedence over public duties for salaried public officials in the central government, local administrations, the political opposition, academia and cultural life in general, thus affecting most of the country’s elites. Banfield’s (1958) study of the Italian Mezzogiorno referred to this complex of attitudes “amoral familism” or the creation of extended kin-based associations which form close networks of interests and develop a particularistic ethics centered solely on the group’s survival and welfare. In-group values and welfare supersede the wider social values or norms and at best, general social values and norms are likely to be invoked only sporadically – as happens sometimes in the case of anti-corruption measures.

Since Romanian society, as elsewhere in the Balkans, is predominantly pre-modern, its members are not motivated to compete openly or adopt the pro-growth dynamics of modernity. Social transactions are regarded as a zero-sum game, where one group’s gain must be another group’s loss. While such a zero-sum perspective may be a rational in traditional, static societies (where resources are limited and policy is primarily directed at redistribution), this worldview is destructive when growth is possible and the professional success of external groups may be a potential source of general wealth. Designing and implementing welfare-enhancing public policies – packages of consistent and uniform general rules applicable to everyone – is challenging in this environment.

In Romania, this secular institutional under-development combines with the inheritance of a particular type of totalitarian regime: “sultanistic communism”, as Linz and Stepan (1996), among other transitologists, have aptly characterised Ceaușescu’s unique blend of inept Soviet-style bureaucracy and Balkan-style nationalism, arbitrariness and clannish behavior. The ruling class of the Ceaușescu years consisted of a number of territory-based families vying for power. The formal rules of the communist regime were not consistently enforced, but were bent to a group’s own advantage, depending on the family’s skill and power. Rent seek-

---

2 In a zero-sum game, a final state may be considered acceptable when everybody loses something, but when one’s group loses less than the others do.
ing was generally accepted, and all the individuals down the social ladder tried with more or less success to replicate the strategies of the top echelons.

Today, political parties typically comprise small coteries of individuals with little or no ability to govern. Government is most often undertaken by an uneasy combination of old-time Communist bureaucrats (the only ones with the group discipline needed to accomplish anything) and foreign donors. An emerging civil society is trying to gain a place in the governance of the country, while facing the same problems as the rest of society. As the Romanian communist regime was much more closed and repressive than its Central European counterparts, an alternative elite (or even a group of technocrats) who could understand and manage policy could not emerge. Many civil society organisations appeared in the early 1990s; using radicalism to make up for the missing dissidence before 1989 – they were, so to speak, intellectuals organising themselves to oppose a dead tyrant. Such radicalism further delayed the appearance of modern, professional, think tanks. Post-communist political structures were also weakened by their inability to discredit and exclude important politicians and business interests linked with the previous regime – resulting in slow reform and inconsistent policies (Nelson, 1995).

Pre-modern attitudes towards domestic public affairs are not caused by a lack of education or by anti-Western values. Little correlation exists between clannish behavior and membership of the old regime’s ruling class, and the new cosmopolitan sophisticated elites who appear at the international gatherings still behave discriminatorily and clannishly in Romania. Such a disconnection also explains the fact that diplomacy, as an occupation, is highly esteemed – as diplomacy allows the individual to increase the distance between pays légal and pays reel, and to use the fiction accepted by the powerful foreign partners of a unified nation-state to the group’s advantage. 3

The manipulation of foreign actors by local Romanian groups helps explain why foreign assistance is ineffective in Romania and is seldom able to alter the ways of the locals. Foreign assistance does not arrive exogenously but is affected by local interests and local politicking, and is dependent on provoking specific reactions from the international community (van Meurs, 2001). Identifying “bad guys” or culprits for non-reform (or “simulated reforms”) ignores the structural problem, and personalizes forces that are deeply entrenched in society. Pumping resources through assistance programs without prior analyses of networks of influence often results, not in changing the rules of the local game, but rather in raising the stakes and consolidating existing power groups. Local elites are tempted to appeal to the international community’s

---

3 This disconnection between the official, Westernized discourse abroad and actual behaviour at home has a long history. The 19th century boyars sent their sons to French and German universities and adopted Western customs, in order to be able to preserve their patronage-based power in the new circumstances? or as Sicilian writer di Lampedusa (2002) notes “everything has to change in order to stay the same”.

247
interest in stability in Romania (as is the case with the European Union) and to stress
the presumably destabilizing effects of reduced assistance or tougher conditionality.

**Predators into bureaucrats?**

According to the corruption scores by Transparency International and govern-
ance scores by Freedom House shown in Figure 3, Romania is more corrupt than
every other EU candidate. Romania scores 2.6 on the Transparency International
scale on a seven point scale (with seven representing the lowest level of perceived
corruption) and rates 77th out of 102 countries. After Bulgaria, Romania rates the
most corrupt on the Freedom House scale with a score of 4.3.

<table>
<thead>
<tr>
<th>Country</th>
<th>Freedom House score*</th>
<th>Transparency International Score**</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hungary</td>
<td>2.5</td>
<td>4.9</td>
</tr>
<tr>
<td>Poland</td>
<td>2.3</td>
<td>4.0</td>
</tr>
<tr>
<td>Slovenia</td>
<td>2.0</td>
<td>6.0</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>4.8</td>
<td>4.0</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>3.3</td>
<td>3.7</td>
</tr>
<tr>
<td>Estonia</td>
<td>3.3</td>
<td>5.6</td>
</tr>
<tr>
<td>Latvia</td>
<td>3.5</td>
<td>3.7</td>
</tr>
<tr>
<td>Lithuania</td>
<td>3.8</td>
<td>4.8</td>
</tr>
<tr>
<td>Romania</td>
<td>4.3</td>
<td>2.6</td>
</tr>
<tr>
<td>Slovakia</td>
<td>3.8</td>
<td>3.7</td>
</tr>
</tbody>
</table>

* One-to-seven scale, with one representing the highest, and seven the lowest, level
  of corruption. Figures have been rounded to the nearest decimal.

** One-to-ten scale, with one representing the lowest and ten the highest level of
  corruption.

index.htm and Transparency International http://www.transparency.org.ro/comunicat_
CPI_2002.htm

Subjective estimates of public sector corruption suggest that most Ro-
manians perceive many groups to be above the law, that the same few people
benefit regardless of the regime and that corruption is widespread. According to
Figure 4, Romanians distrust their fellow citizens and political parties as much
as people in other countries in the region.4 A higher proportion of Romanians

---

4 Trust remains low in Romania for central government, law and order' agencies, Parliament and
political parties, which are placed further from the voters' reach, protected by the intricacies of a
proportional electoral system based on party lists.
participate in voluntary associations (partially due to high union membership rates inherited from Communist times) and attend protest rallies more often than people in other regional countries. Romanian passivity and structural distrust which plagues collective action is not uniquely a Romanian phenomenon, nor is it due to the ‘fatalistic political culture’ depicted by Wildafsky (1986). Communist socialisation, rather than specifically Romanian cultural traits, is the more likely cause of such passivity and distrust. All Eastern European countries are struggling, regardless of their Catholic or Orthodox roots, with widespread mal-functioning of their public administrations which translates into the incapacity to provide satisfactory service without the ‘extra-tax’ bribe payments. All these countries have underpaid civil servants, and public resource shortages accentuated by over-regulation. Citizens are accustomed to being mistreated due to an almost total absence of formal institutions of civil service accountability to the public. Even though only 34% of Romanians believe promoting good governance is beyond their power, formal institutions continue to support poor governance. Citizens pay an extra-tax (a bribe) because paying off individuals in this way is simpler than fighting the entire system – albeit at the cost of the erosion of trust in new formal democratic institutions.5

Figure 4
Perceptions of Governance in Eastern Europe

<table>
<thead>
<tr>
<th></th>
<th>Interpersonal trust</th>
<th>Trust in political parties</th>
<th>Participation (attending lawful demonstrations)</th>
<th>Civic membership</th>
<th>Extent of corruption</th>
</tr>
</thead>
<tbody>
<tr>
<td>Czech R.</td>
<td>27</td>
<td>15</td>
<td>11</td>
<td>30</td>
<td>62</td>
</tr>
<tr>
<td>Slovakia</td>
<td>26</td>
<td>22</td>
<td>12</td>
<td>28</td>
<td>61</td>
</tr>
<tr>
<td>Poland</td>
<td>17</td>
<td>13</td>
<td>10</td>
<td>2</td>
<td>69</td>
</tr>
<tr>
<td>Hungary</td>
<td>22</td>
<td>20</td>
<td>9</td>
<td>31</td>
<td>42</td>
</tr>
<tr>
<td>Slovenia</td>
<td>15</td>
<td>14</td>
<td>9</td>
<td>31</td>
<td>68</td>
</tr>
<tr>
<td>Romania</td>
<td>18</td>
<td>14</td>
<td>20</td>
<td>31</td>
<td>58</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>24</td>
<td>30</td>
<td>11</td>
<td>10</td>
<td>68</td>
</tr>
</tbody>
</table>


The majority of Romanians have become democrats, but blame the difficult political and economic transition of their country on the political ‘class’. As shown in Figure 5 in a SAR-CURS 2000 survey, 59% of Romanians report having been mistreated by a civil servant after the fall of Communism. The recruitment method of politicians and bureaucrats may account for their low popularity, as political representatives are elected from party lists and the government appoints judges and the civil service from within the former Communist bureaucracy, and

5 For Romania, roughly a quarter of the respondents enjoy belonging to the right network or having the right connections needed for service delivery or administrative licences.
also from new recruits. Civil servant jobs are usually only obtainable by informal connections, due to a lack publicly advertised public sector job openings. Widespread politicisation of the administration stems less from political interest in these low-key jobs than the need to distribute patronage.

**Figure 5**
Dissatisfied Democrats in Romania

<table>
<thead>
<tr>
<th>Questions</th>
<th>% agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>Parliament should be closed down and parties abolished</td>
<td>19</td>
</tr>
<tr>
<td>A unity government with only the best people should replace the current government</td>
<td>59</td>
</tr>
<tr>
<td>There is a conflict between politicians and ordinary citizens</td>
<td>51</td>
</tr>
<tr>
<td>Problems of transition can be blamed on incompetent governments</td>
<td>62</td>
</tr>
<tr>
<td>Mistreated by a civil servant after 1990</td>
<td>59</td>
</tr>
</tbody>
</table>

*Source: Eurobarometer and CURS 2001.*

Such data may be explained by the still widespread perception of the state as a parallel entity to society, operating alongside society, rather than with it. Citizens have not claimed *ownership* of the state, even if the voter turn-out in local and national elections is relatively high. Levels of trust are lower in urban areas than in rural ones. Only in local urban areas did trust in government double in Romania between 1997 and 2000, as fiscal decentralisation gradually empowered directly elected mayors to be responsive to their constituencies.

As shown in Figure 6, a number of variables can be used to help estimate public trust in government (in general), in specific public agencies, and in the ‘state’ in general. The regression model shows a *non-causal* association between interpersonal trust and trust in public sector and state agencies. Administrative performance, using as a proxy the question about negative personal encounters (mistreatment) by a public servant, is an important predictor of trust in political institutions, the state in general and in the public sector in particular. Residual Communist attitudes also hinder the development of trust, as frustration with transition and longing for Communism imply less trust in the new regime. Age is an important predictor of trust, as young Romanians tend to be more confident than the old, and subjective well-being is a more important determinant of trust than objective differences in income. Membership in voluntary associations is not

---

6 These data suggest that trust is not a basic psychological orientation arising out of an environment of scarce resources (Foster 1967). This finding also contradicts previous studies of social capital, such as Almond and Verba (1963) or Putnam (1995), who found a strong relation between trust and more developed regions. A possible explanation may revolve around increased urbanite interaction with public administration, and according to the survey data, they also pay more bribes for public services.
a significant indicator of trust. Interpersonal trust predicts only public trust and seems unrelated to trust in politics. The only solid predictor of the three types of trust in the public sector is personal experience with administration.

**Improving the quality of public governance**

Current formal and informal public administrative institutions support ongoing corruption. Public sector corruption in Romanian not only consists of the use of a public position for personal gain, but encompasses the widespread infringement of the norms of impersonality and fairness (which should characterise modern public service) to the advantage of more powerful groups. Institutional reforms during transition did not target this discretion specifically, as civil service reform acts prompted by the European Commission include practically no reward or punishment system to promote a change of administrative culture. The reform of public administration, and of the state in general, is the key to legitimising democracy and to Romania’s accession to the EU. The central group of post-communist politicians, such as the group around Romanian President Ion Iliescu, has gradually evolved from authoritarian socialists to pro-European social-democrats, but they did not dare to attack corruption (as the predatory elite is the most influential part of their power basis). Tackling such corruption is, however, an essential step in Romania’s transformation and in EU accession.

Building transparent institutions and a balanced political system in which no group can ‘privatise’ the administration are the only solution for poor governance. The adoption of a single, clear and legally binding code of conduct for the whole public sector could help regulate and establish norms and desired practices – such as the Code of Conduct of the American Federal Office for Government Ethics. An autonomous agency, whose head is appointed by Parliament, must also be created with the power to enforce such codes (an office of ethics). While the Ombudsman’s office pursues the infringement of good conduct, an ethics agency targets the complete implementation of standards of conduct on an agency by agency basis, by setting performance targets, creating indicators, and organizing feedback from citizens on a regular basis. Legislative instruments, such as the Freedom of Information Acts (FOIA) adopted in Romania should be thoroughly implemented.

---

7 The classic social capital determinants, such as wealth, education or membership in civic association do not satisfactorily predict political or public trust in Romania.
Section V  Managing the Relationship between the State and Society

**Figure 6**
Determinants of Public Trust

<table>
<thead>
<tr>
<th>Predictors</th>
<th>Trust in State</th>
<th>Trust in Government</th>
<th>Trust in Public Sector</th>
<th>Wording and scales</th>
</tr>
</thead>
<tbody>
<tr>
<td>Education</td>
<td>ns</td>
<td>ns</td>
<td>ns</td>
<td>1 = 'primary’ 2 = ‘elementary and vocational’ 3 = ‘high-school’, 4 = ‘college and higher’</td>
</tr>
<tr>
<td>Wealth</td>
<td>ns</td>
<td>ns</td>
<td>ns</td>
<td>Factor score from the average household income and the total number of household utilities</td>
</tr>
<tr>
<td>Age</td>
<td>ns</td>
<td>-0.082 *</td>
<td>-0.108 **</td>
<td>Respondent’s age in years</td>
</tr>
<tr>
<td>Town size</td>
<td>-0.043 *</td>
<td>-0.072 *</td>
<td>-0.073 *</td>
<td>1 = village; 2 = town under 30 000 inhabitants; 3 = town 30 000-100 000 inhabitants; 4 = town 100 000-200 000; 5 = town over 200 000 inhabitants</td>
</tr>
<tr>
<td>Male</td>
<td>ns</td>
<td>ns</td>
<td>ns</td>
<td>Respondent’s gender (1 = male)</td>
</tr>
<tr>
<td>Subjective welfare</td>
<td>0.105 *</td>
<td>0.226 *</td>
<td>0.181 *</td>
<td>Satisfaction with life from 1 = ‘not satisfied at all’ to 4 = ‘very satisfied’; for analysis the variable was coded again with scores from −1 to +1, non-answers being coded with 0</td>
</tr>
<tr>
<td>Interpersonal trust</td>
<td>0.129 ***</td>
<td>0.037</td>
<td>0.141 **</td>
<td>‘Most people can be trusted’ scale ranging from 1 (total disagreement) to 4 (total agreement)</td>
</tr>
<tr>
<td>Follows politics in the media</td>
<td>0.128 *</td>
<td>0.062</td>
<td>0.066</td>
<td>Index built as mean of scores for ‘watch political news on TV’, ‘read political news in the press’, ‘discuss politics with friends’</td>
</tr>
<tr>
<td>Civic membership</td>
<td>0.093</td>
<td>0.049</td>
<td>-0.056</td>
<td>Dichotomous variable, 1 = member voluntary association, 0 = non-member</td>
</tr>
<tr>
<td>Communism good idea</td>
<td>-0.127 *</td>
<td>-0.242 *</td>
<td>0.066</td>
<td>“Communism good idea badly put into practice” (from 1 = fully disagree to 4 = fully agree)</td>
</tr>
<tr>
<td>Mistreated by a civil servant after 1989</td>
<td>-0.137 *</td>
<td>-0.215 *</td>
<td>-0.317 **</td>
<td>Experience with mistreatment by public servants after 1989, 1 yes, 0 no</td>
</tr>
<tr>
<td>Adjusted R²</td>
<td>0.137</td>
<td>0.193</td>
<td>0.102</td>
<td></td>
</tr>
</tbody>
</table>

Source: Romanian Academic Society (SAR) and the Center for Urban Sociology (CURS) from 2000.
*** significant at 0.01 level, ** significant at 0.1 level, ns – non-significant item.
Figures are non-standardized regression coefficients. Dependent variables are trust in state from 1 (little) to 4 (a lot); trust in government; factor score of evaluations of Government, Parliament and Presidency; scales from 1 (little) to 4 (a lot); trust public sector (PUBLIC SECTOR) – factor score of evaluations for main public agencies, scales from 1 (little) to 4 (a lot).
The Failure of Public Governance in Romania

References


Introducti

There is a substantial amount of research data pointing to corruption as one of the major obstacles for sustainable development. Lithuania is no exception to this trend and given persistent corruption in the country, sustained efforts have been made over the past years to fight corruption at both the legislative and administrative levels. Due to the European Commission’s regular report on Lithuania’s progress towards accession, the Lithuanian authorities are concerned about administrative corruption, especially in the transparent application of administrative procedures and co-ordination among agencies in combating corruption. Some key sectors highly affected by corruption, as identified by recent studies, are customs, public procurement, police, courts, health care system, tax authorities, municipalities, and central ministries. Like other Central and Eastern European countries, Lithuania has most of the necessary laws and structures for fighting and preventing corruption. It lacks the skill and experience to use them efficiently, however. For that reason, the importance of training as an anti-corruption measure has been highlighted in a number of official documents.

---

1 All data for anti-corruption measures in Lithuania provided for this article is current as of July 2003.
3 For more information, see the Internet site of the Special Investigations Service at www.str.lt.
Legislative and Institutional Framework For The Prevention Of Corruption

On 17 January 2002, the Parliament (Seimas) adopted the “National Anti-Corruption Programme of the Republic of Lithuania”, comprising the National Anti-Corruption Strategy and the Action Plan for the implementation of the Strategy, that serves as a major legislative framework for anti-corruption activities, including training.5 The programme places particular emphasis on “preventing the occurrence of corruption, establishing the principle of inevitable legal accountability for unlawful acts, building public intolerance towards corruption, as well as developing international co-operation in the fight against corruption.”6 The Programme focuses on the holistic, integrated, and collaborative approach to address corruption and provides three main measures for the fight against corruption: prevention, investigation of corruption related offences, and public anti-corruption education, to be implemented in 2002-2006.

The main institutions responsible for the prevention, detection and prosecution of corruption at the national and at the sub-national level are the Special Investigations Service, Public Prosecutors Office, the police and the courts. Overall responsibility for implementation, monitoring, and assistance with the anti-corruption programme lies in the hands of the Government and the Special Investigations Service (SIS). The SIS is a specialized anti-corruption body dedicated to both the detection and prevention of corruption activities in Lithuania. As shown by the organisational diagram in Annex I, the SIS is the co-ordinator of the National Anti-Corruption Programme.7 For its part, the Government, in its programme for 2001-2004, has declared its commitment to contribute to the overall success of anti-corruption activities.8

The Action Plan contains eleven specific measures on education and training, which fall under the third chapter called “Anti-corruption education of society and its support” (see Annex II). The Action Plan also calls for the development of sector-specific anti-corruption programmes by central and local governments (see measure 1.18). To this effect, technical assistance from the European Union (EU) has been provided through a Phare project which started in January 2002 and ended in December 2002.9

6 Ibid. par. 1.2.
7 A detailed description of institutions which deal with the prevention of, and the fight against, corruption and their functions can be found in the Evaluation Report on Lithuania adopted by GRECO at the 8th Plenary Meeting (Strasbourg, 4-8 March 2002).
9 PHARE project LI 9913.02 “Support to the Lithuanian Government's Anti-Corruption Commission and Review and Implementation of the National Anti-Corruption Programme, the Preparation and Implementation of Sector Anti-Corruption Strategies and Action Plans”.
In addition to the anti-corruption strategy and its implementation plan, there are a number of other laws that serve to prevent corruption in Lithuania. For instance, on 12 January 1999, the Seimas adopted the Law on Financing of Political Parties and Political Organisations, and on 3 June 1999 the Law on Public Procurement. Finally, with the adoption of the Law on Corruption Prevention in May 2002, Lithuania completed the legal basis for the fight against corruption. The law aims at establishing the main principles for preventing corruption in the private and the public sectors. It identifies measures for preventing corruption, provides their legal basis, and determines corruption prevention agencies, including their responsibilities.\(^{10}\)

**Existing Anti-Corruption Education in Lithuania**

Corruption is a very new academic discipline. Therefore, it comes as no surprise that no higher education institution in Lithuania has specific anti-corruption topics incorporated into their study programmes as yet. However, there are courses that form at least a part of an anti-corruption education, for instance, courses in professional ethics. A number of higher education institutions that teach public administration offer courses on ethics in public administration or civil servant ethics (see Table 1). Generally, these courses consist of ethics theory, the analysis of ethical codes or major factors that affect ethics in public service, and are accompanied with practical assignments. They usually last one semester and take 40 to 160 academic hours to complete.\(^{11}\)

Most of these courses have been developed very recently. The first study programme on public administration at the Bachelor and Master level was introduced in 1994 at Kaunas University of Technology.\(^{12}\) Since then, four additional Bachelor level and nine Master level study programmes have been created by four other universities. Thus, there are five out of twenty one universities that have 15 study programmes on public administration, with 8 of them having courses on ethics in public service.

---

10 There is a whole set of anti-corruption laws and the specific laws which are directed at fighting corruption. General up to date information on anti-corruption laws is available on the website of the Special Investigations Service at www.stt.lt.

11 The courses consist of lectures, practical assignments, and seminars. They do, however, have different values, as in some cases there is no exam after the course, only course work.

12 Domarkas V. and Gineitiene D. “Public Administration Education in Lithuania”, Department of Public Administration Kaunas University of Technology.
At the initial stage of the anti-corruption programme, a new anti-corruption course was developed by The Centre of Contemporary Didactics (attached to Vilnius Pedagogical University), for secondary schools, and run on a pilot basis for schoolteachers. Likewise, during 2002-2004, due to a request from the SIS, and thanks to financial assistance from the UNDP, The Centre of Contemporary Didactics, with experts representing different political parties, under the framework of the project “Corruption prevention through education, information, and consciousness raising” will prepare educational anti-corruption courses for bachelor as well as master level studies, and will try to introduce them into the curriculum of higher education institutions. The course will consist of two modules (lasting about 36 and 48 academic hours). The first module will include topics on corrupt structures, the analysis of “negative Globalisation” and their effects on Lithuania. The second module will deal with preventing corruption, with an emphasis on civil society development, national awareness raising, and trust in law enforcement institutions.
Existing Anti-Corruption Training In Lithuania

Similar to academic institutions, few training institutions offer permanent specific anti-corruption courses, not considering the courses on ethics (see Table 2). The main organisations offering permanent training include the Customs Training Center, Lithuanian Institute of Public Administration, Public Procurement Office Training Division, and the Training Methodology Division of the Prosecutors-General Office. Most of these courses have been developed with the help of foreign experts and have been only very recently introduced into the curriculum. Only a couple of training seminars have been organised so far, and these courses do not yet cover all sectors affected by corruption, for example, the police service is not yet covered.

Table 2
Training Institutions that offer anti-corruption training courses

<table>
<thead>
<tr>
<th>Training Institution</th>
<th>Course Titles</th>
<th>Target Group</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Customs Training Center</td>
<td>Fight Against Corruption in Lithuanian Customs</td>
<td>Inspectors, other customs officials</td>
</tr>
<tr>
<td>2. Lithuanian Judicial Training Center</td>
<td>Ethics of Court Personnel  &lt;br&gt; Ethics of Judges</td>
<td>Judges, bailiffs and staff from public institutions that are involved in judicial matters.</td>
</tr>
<tr>
<td>3. Lithuanian Institute of Public Administration</td>
<td>Initial Training Programme  &lt;br&gt; Ethics of Civil Servant  &lt;br&gt; Civil Service Continuous Training Programme  &lt;br&gt; Co-ordination of Public and Private Interests  &lt;br&gt; Enhancing Good Governance and Fighting Against Corruption in Lithuania</td>
<td>Civil servants from all levels of public administration.</td>
</tr>
<tr>
<td>4. Municipal Training Center at the Kaunas University of Technology</td>
<td>Initial Training Programme  &lt;br&gt; Ethics of Civil Servant  &lt;br&gt; Management and Administration Programme  &lt;br&gt; Ethics in Public Administration</td>
<td>Civil servants and politicians from municipalities</td>
</tr>
<tr>
<td>5. Public Procurement Office Training Division</td>
<td>Unlawful Acts and Corruption in Public Procurement Area</td>
<td>Civil servants from the Office and other public administration institutions, procurers, and customers</td>
</tr>
<tr>
<td>7. Training Center at the Ministry of Finance in Vilnius and in five other biggest towns of Lithuania</td>
<td>Initial Training Programme  &lt;br&gt; Ethics in Public Service</td>
<td>The regulating state financial economic relations specialists.</td>
</tr>
<tr>
<td>8. Training Methodology Division of the Prosecutors-General Office</td>
<td>Fight Against Corruption</td>
<td>Public prosecutors, including joint training programmes with judges</td>
</tr>
</tbody>
</table>
Most anti-corruption training has been run on a project-to-project basis. In recent years, with financial assistance from developed countries, a number of different organizations have organised or sponsored ad-hoc anti-corruption trainings or awareness raising conferences for specific target groups in the public as well as private sectors. Some of these organisations include the EU, the World Bank, the United Nations Development Programme, USAID, and Transparency International. In 2001 and 2002, the staff of the Special Investigation Service has been provided with general and specialised training covering anti-corruption public awareness raising, preparing public anti-corruption education programmes, application of special software for data analysis, undercover operations, and methods of investigation and interrogation. Under a Phare project, some training has been organised for line ministries responsible for developing sectoral anti-corruption strategies, for example in customs and health care. During the project, a new and specific anti-corruption course in customs has been developed, tested, and now is run on a permanent basis for customs officials at the Customs Training Centre in Vilnius.

In 2001, based on a request from the Lithuanian Parliament and Municipal authorities, the U.S. Embassy initiated and funded a Governmental Ethics Training Program that had been implemented by the Management Training Centre of the Panevezys Institute of Kaunas University of Technology. The programme aimed at increasing public confidence in government institutions, improving the monitoring of ethics, and increasing the role of the public, the media and the academic community in promoting high standards of government ethics. A two-day anti-corruption training course is also offered at the Lithuanian Institute of Public Administration (LIPA), which will be discussed in the next section of this paper.

Much anti-corruption training has been undertaken on a multilateral or bilateral basis. Through the adoption of a national programme on the fight against corruption, Lithuania encompassed all anti-corruption initiatives in a single document that paves the way for the preparation and running of anti-corruption educational and training courses on a permanent basis.

### Anti-Corruption Curriculum of the Lithuanian Institute of Public Administration

The Lithuanian Institute of Public Administration (LIPA), established in January 1999, is the leading training institution providing training and consultations for

---

civil servants in Lithuania. The Implementation plan of the anti-corruption programme does not mention LIPA as a provider of anti-corruption training; however, under the authorization of the Ministry of Interior, it is responsible for the development and implementation of training programmes for civil servants. The Institute thus engages in anti-corruption training and runs three courses, which could fall under the category of “anti-corruption training” – namely in Ethics of Civil Servant, Coordination of Public and Private Interests, and Enhancing Good Governance and Fighting against Corruption in Lithuania.

Ethics of Civil Servant
Since 2000, a one-day (8 academic hours) training course called Ethics of Civil Servant was conducted, dealing with civil servant professional ethics. The programme’s target group is very broad, including all civil servants who seek career advancement. The programme seeks to help those starting their public sector careers to understand what kind of behaviour society expects out of them, what are the basic formal and informal norms of ethical behaviour for the civil servant, and the kinds of values civil servant should hold. The programme introduces ethics codes from various countries and discusses the application of the law on co-ordinating public and private interests in Lithuania. Trainers come from institutions that have developed codes of ethics for civil servants. They usually make presentations that are accompanied by discussions, practical assignments and case analyses. Forty-seven civil servants attended the seminar in 2001, and 212 civil servants attended in 2002.

Co-ordination of Public and Private Interests
The second training programme under the category of anti-corruption training is Co-ordination of Public and Private Interests. This two-day course is targeted at vice-ministers, ministry secretaries, heads of departments and divisions, and civil servants from counties and municipalities, who participate in the formation and implementation of public policy. The programme aims to teach participants how to conduct impact assessments of decisions taken and manage different interests of society in order to ensure balanced public policy implementation. Trainers make presentations, organise work in groups, give individual assignments, and ask for modelling as well as situation analysis. Twenty-one civil servants attended the seminar in 2000 and 18 in 2002.

Enhancing Good Governance and Fighting against Corruption in Lithuania
In the framework of a Phare twinning project, Yrjo Vena, an expert from the Finnish Institute of Public Management (HAUS), has developed a two-day (16 academic hours) training course, Enhancing Good Governance and Fighting against
Corruption in Lithuania, that was piloted in October 2001. The programme has been adopted for the current Lithuanian situation and now includes Lithuanian anti-corruption legal documents and cases (see Annex 3). The programme's target group consists of all levels of civil servants responsible for administrative development and operational quality.

Enhancing good governance and fighting corruption are important aims of the Lithuanian government. The main objectives of this seminar are to understand the complex elements that form good and bad governance, to recognise corrupt practices, and to know and support the Government’s anti-corruption strategy. The programme covers the characteristics of good governance, rule of law, transparency and openness, freedom of information, role of mass media, accountability, and corruption. The programme also comprises a discussion of corruption cases, corruption prevention on a system level, the international fight against corruption and the Lithuanian anti-corruption strategy.

Course trainers are from the Transparency International Lithuanian Section and the Special Investigations Service. Presentations during the course are accompanied with case discussions in pairs, groups, common discussion, questions and answer format, as well as individual assignments. Each session of the programme has a set of presentations and specific cases. Relevant official anti-corruption documents are included as handouts. Only three seminars have been organised, including one piloted on 47 participants coming from various regional and central public administrative institutions. Even though the content of the seminar only partly fulfilled participants’ expectations, they cited a number of issues they would be able to apply in their daily work. They also wanted to continue the training in more specific fields like internal audit or privatisation. Based on observations from the participants, the seminar could provide video training, and concentrate more on practical examples and statistics. Following the quality insurance procedure of LIPA, two experts (one from the Law University of Lithuania, and the other from the SIS) have assessed the course and made some proposals for improvement.

Conclusions

Corruption is an important issue to be addressed in Lithuania. The adoption of the national anti-corruption programme was a huge step forward towards co-ordinating anti-corruption including education and training activities. The implementation of the programme is at its initial stage; therefore, it is difficult to measure its overall success. Most of the training activities have taken place on the project basis. However, the number of educational and training institutions providing anti-corruption training on a permanent basis has been, or will be, expanded in the near future. Thus, anti-corruption training and education activities
are on the right track. Nevertheless, it is possible to provide some general recommendations that could complement ongoing anti-corruption activities:

- Permanent monitoring as well as horizontal and vertical training for major risk groups should be undertaken.

- Vertical anti-corruption training programmes do not cover all sensitive areas and additional training programmes should be developed and incorporated into specialised training centres, for instance, the Lithuanian Police Training Centre might implement courses for police officers.

- Incorporate special anti-corruption curriculum into all levels of educational and training institutions.

- Have obligatory anti-corruption courses for A and B level civil servants, especially those coming from sensitive sectors.

- LIPA should provide horizontal training for middle and top level public sector managers, whereas vertical training activities could be undertaken by specialised training centres attached to specific ministries or universities.

- Case studies should be used as a training method with active participant involvement.

- The State should further finance anti-corruption training activities.

- Trainers on anti-corruption matters should be both experienced public servants as well as representatives from NGOs or universities in order to reflect broader co-operation between private and public sectors.

- Training programmes should contain specific cases related to participants’ daily work and to specific laws as well as the mechanisms of implementation.

- Some additional topics could be covered include the Law on Corruption Prevention and civil servant codes of ethics.

- Most importantly, most of anti-corruption activities funded from international funds should have the full commitment from the Lithuanian Government.
Annex 1: A diagram of bodies implementing the National anti-corruption programme
### Annex II: Implementation measures

#### CHAPTER III
**ANTI-CORRUPTION EDUCATION OF THE PUBLIC OF ITS SUPPORT**

<table>
<thead>
<tr>
<th>Description</th>
<th>Objective</th>
<th>Time limits</th>
<th>Implementing authority</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Staging competitions of pupils initiatives on anti-corruption at secondary schools and gymnasiums, announcement of the results.</td>
<td>Introduction of anti-corruption provisions at secondary schools and gymnasiums.</td>
<td>2002 06</td>
<td>Ministry of Education and Science Special Investigations Service Crime Prevention Centre in Lithuania* PHARE expert*</td>
</tr>
<tr>
<td>2. Development of draft methodological recommendations for anti-corruption education.</td>
<td>Introduction of anti-corruption provisions at secondary schools and gymnasiums.</td>
<td>4th quarter of 2002</td>
<td>Ministry of Education and Science Special Investigations Service PHARE experts*</td>
</tr>
<tr>
<td>4. Staging a competition of scientific research on anti-corruption for the students of institutions of higher education, announcement of the competition results.</td>
<td>Introduction of the basics of anti-corruption education at institutions of higher education.</td>
<td>2002 06</td>
<td>Ministry of Education and Science Special Investigations Service Crime Prevention Centre in Lithuania * PHARE experts*</td>
</tr>
<tr>
<td>5. Development of curricula, courses and scientific projects for the students of institutions of higher education.</td>
<td>Introduction of the basics of anti-corruption education at institutions of higher education.</td>
<td>1st quarter of 2003</td>
<td>Ministry of Education and Science Special Investigations Service PHARE experts*</td>
</tr>
</tbody>
</table>
6. Introduction of curricula, courses and scientific projects at the colleges of higher education.

7. Conducting a competition of regional journalists for the best articles on anti-corruption; announcement of the competition results, publication of the articles.


9. Preparation and distribution of postcards, posters, leaflets (explaining the objectives of the anti-corruption programme, individual rights and the ways of countering corruption, etc.).

10. Development of an anti-corruption training programme for civil servants; development of draft legislation regulating the attendance of such training courses.

11. Conducting anti-corruption training courses for civil servants.
Annex III: Timetable of the programme

1st Day:

<table>
<thead>
<tr>
<th>Time</th>
<th>Topic</th>
<th>Main contents</th>
<th>Function</th>
<th>Method and material</th>
</tr>
</thead>
<tbody>
<tr>
<td>09.00</td>
<td>1. Opening and presentations</td>
<td>Each participant and facilitator presents him/herself, course leader presents the outline and the objectives of the programme</td>
<td>Motivation, socialisation</td>
<td>Presentation and discussion, Objectives and programme on transparency</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>09.30</td>
<td>2. How can we recognise good and bad governance? Good governance</td>
<td>- Examples of recent administrative scandals, e.g. Commission 1999, Chancellor Kohl in Germany in 1999-00, Lithuanian examples</td>
<td>Motivation</td>
<td>Presentation and discussion</td>
</tr>
<tr>
<td></td>
<td>according to UNDP</td>
<td>- Concept of governance. Easier to recognise bad governance than good.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>- UNDP definition of good governance: main points</td>
<td>Presentation of new information</td>
<td>Handouts: Newspaper clips</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Concept of governance</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>UNDP Characteristics of Good Governance</td>
</tr>
<tr>
<td>10.15</td>
<td>Coffee break</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10.30</td>
<td>3. The Rule of Law. Generally accepted procedural principles of</td>
<td>- What the Rule of Law means</td>
<td>Presentation of new</td>
<td>Presentation and discussion. Ask participants examples of application of the</td>
</tr>
<tr>
<td></td>
<td>administrative law</td>
<td>- Separation between civil law and administrative law</td>
<td>information</td>
<td>principles</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Discussion of the procedural principles and their application in administrative decision-making</td>
<td>Systematisation of concepts</td>
<td>Handout: Procedural principles</td>
</tr>
<tr>
<td>11.15</td>
<td>4. Transparency and openness of government</td>
<td>Dimensions of open government: - information to general public, - access to public documents - consultation of various interest groups - internal and external audit - Ombudsman and other ways to seek redress - how NGOs operate</td>
<td>Presentation of new</td>
<td>Presentation and discussion. Ask participants to assess the</td>
</tr>
<tr>
<td></td>
<td>- discussion</td>
<td></td>
<td>information</td>
<td>Lithuanian situation and relations with press and NGOs</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Systematisation of concepts</td>
<td>Handout: Dimensions of transparent</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>and open government</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Operation of NGOs</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Time</td>
<td>Session</td>
<td>Overview</td>
<td>Handouts</td>
<td></td>
</tr>
<tr>
<td>-------</td>
<td>-------------------------------------------------------------------------------------------</td>
<td>--------------------------------------------------------------------------</td>
<td>-------------------------------</td>
<td></td>
</tr>
<tr>
<td>12.00</td>
<td>Lunch break</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>13.00</td>
<td>5. Transparency and access to public documents in some EU member states and in EU institutions. &lt;br&gt;- Examples from some advanced countries (Nordic countries, NL) &lt;br&gt;- Development of transparency and openness in the EU institutions</td>
<td>Presentation of comparative information for reflecting the Lithuanian situation</td>
<td>Presentation and discussion &lt;br&gt;<em>Handouts</em>: Finland, EU</td>
<td></td>
</tr>
<tr>
<td>14.00</td>
<td>Coffee break</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>14.15</td>
<td>6. Other characteristics of good governance &lt;br&gt;- Accountability &lt;br&gt;- Audit &lt;br&gt;- Equity &lt;br&gt;- Ombudsman and other ways to seek redress</td>
<td>Illustration of application of these measures</td>
<td>Short presentation of the measure. Discussion based on short case studies &lt;br&gt;<em>Handouts</em>: Other characteristics &lt;br&gt;Case descriptions</td>
<td></td>
</tr>
<tr>
<td>16.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Time</td>
<td>Topic</td>
<td>Main content</td>
<td>Function</td>
<td>Method and material</td>
</tr>
<tr>
<td>-------</td>
<td>------------------------------------------------------------------------</td>
<td>-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
<td>-----------------------------------------------</td>
<td>-------------------------------------------------------------------------------------------------------------</td>
</tr>
</tbody>
</table>
| 09.00 | 7. Characteristics of bad governance: Corruption and its consequences on national development and economy. Various types of corrupt behaviour  
- discussion of cases | Definition of corruption. Its estimated costs in society.  
Types of bribery:  
- for access to scarce benefit, or avoidance of costs  
- for receipt of a benefit or avoidance of costs, where discretion must be exercised  
- for speedy service or inside information  
- for prevention others from sharing in a benefit or to impose cost on someone else | Motivation  
Presentation of new information, systematisation of concepts.  
Illustration of concepts in everyday life | Short presentation of each point.  
Illustration with a case study.  
Discussion  
*Handouts: Definition and types of corruption*  
Cases |
| 09.45 | 8. What causes corruption?  
Discussion | Question to be discussed: Although corruption has so bad social and economic effect, why is it so widely exercised?  
Summing up and conclusions | Application and eLabouration of concepts | 1. Pair discussion 15 min  
2. Reports 20 min  
3. Summing up and conclusions, comments by facilitator |
| 10.30 | Coffee break                                                                                                           |                                                                                                                                             |                                               |                                                                                                             |
| 10.45 | 9. How should we fight corruption: Prevention and punishment?  
Discussion | Questions to be discussed:  
Propose 3-4 effective preventive measures, and 3-4 punitive measure to eradicate corruption  
Summing up of proposals and comparison with the recommendations of an anti-corruption strategy | Application and eLabouration of concepts | 1. Pair discussion 15 min  
2. Reports 20 min  
3. Summing up and conclusions.  
*Handout: Recommendations for anti-corruption strategy* |
<table>
<thead>
<tr>
<th>Time</th>
<th>Activity</th>
<th>Handouts</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>10.00</td>
<td>10. International cooperation on non-governmental level: TI Lithuanian Chapter - discussion</td>
<td>The work of the Transparency International and its Lithuanian Chapter. Corruption Perception Index and how Lithuania has performed in the surveys. Participants' opinion.</td>
<td></td>
</tr>
<tr>
<td>13.00</td>
<td>Lunch break</td>
<td></td>
<td></td>
</tr>
<tr>
<td>14.00</td>
<td>Coffee break</td>
<td></td>
<td></td>
</tr>
<tr>
<td>14.15</td>
<td>12. What every senior civil servant can do to strengthen good governance and to fight corruption? - reports and discussion</td>
<td></td>
<td></td>
</tr>
<tr>
<td>16.15</td>
<td>End of seminar</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
About the authors

Rustem Ablyatifov is a Chief of Division in Ukraine’s State Committee for Nationalities and Migration and is currently pursuing advanced studies at the Ukrainian Academy of Public Administration.

Herrington J. Bryce is Life of Virginia Professor of Business Administration at the College of William and Mary in Williamsburg, VA (USA) where he teaches corporate financial strategy and nonprofit financial strategy and management. He has been a fellow at the Institute of Politics at Harvard School of Government, a member of the faculty of the Massachusetts Institute of Technology, head of the graduate program in budgeting and legal services at the University College, University of Maryland and has served on many federal, state and local government advisory committees on government planning and financing. He most recently served on the Treasury Board of the Commonwealth of Virginia which is responsible for determining, negotiating and issuing of all Virginia state debt. He has written several books and journal articles in public finance and has worked in that capacity in Estonia, the Republic of Georgia and Russia. His most recent book is Financial and Strategic Management for Nonprofit Organizations (Jossey Bass 2000).

Phillip J. Bryson is Douglas and Effie Driggs Professor of Economics at the Marriott School of Brigham Young University. He has also taught at the University of Arizona and has been a visiting professor and Humboldt Fellow at the Free University of Berlin and the University of Munich and a Fulbright Fellow at Marburg University.

Gary C. Cornia is Stewart Grow Professor of Public Management and Director of the George W. Romney Institute of Public Management at Brigham Young University. He was President of the National Tax Association, 2002-2003 in the United States and as Co-Chair of the National Tax Association Study on the Taxation of Electronic Commerce. He has published widely on tax issues, including problems of fiscal decentralization in transition countries.

Wolfgang Drechsler is Professor and Chair of Public Administration and Government at the University of Tartu, Estonia. He served as a civil servant with the U.S. Congress, the German Wissenschaftsrat, and the Estonian President's
office, and has taught at the Universities of Marburg, Giessen, and Frankfurt/Main, Germany, and Lund, Sweden. He was, in 2001, the first NISPAcee Alena Brunovskà Prize recipient.

Yehezkel Dror is a professor of political science at the Hebrew University of Jerusalem and has had senior positions at the RAND Corporation, Israeli Ministry of Defense, and Israeli Cabinet Office, as well as serving as an international consultant. He is the author of a number of books on capacities to govern and policy planning.

Donald Fuller is a Visiting Professor at Comenius University in Bratislava (Slovakia) and at the Anglo-American College in Prague (Czech Republic). His research interests include public policy analysis and political economy.

Bartłomiej Gurba is currently at the University of Bonn's Center for European Integration Studies. His research areas are in the fields of fiscal decentralisation and federalism.

Sorin Ionita is the executive director of the Romanian Academic Society (SAR) and a lecturer in the Political Science Department of the School of Government in Bucharest. He also works as a regional consultant for the World Bank on public administration reform.

Mantas Jonauskis is presently a lecturer on the European Union at the Lithuanian Institute of Public Administration.

Rainer Kattel is Professor of Public Administration and European Studies at Tallinn Technical University, Estonia, and Senior Research Fellow at PRAXIS Center for Policy Studies, Estonia.

Tatiana Majcherkiewicz is presently a lecturer in Sociology at the Social Science Department of the Mining and Metallurgy University of Cracow. She earned her doctorate from the London School of Economics and Political Science as authored a number of papers and chapters.

Bryane Michael is currently researching issues related to government reform at Oxford University, where he also tutors in economics and management. He also advises on public and private sector reform. He has previously worked at the World Bank and the OECD where he advised on a number of issues in the Russian Federation, Nicaragua and Bolivia.

Alina Mungiu Pippidi is the president of the Romanian Academic Society (SAR) and a professor in the Political Science Department of the School of Government in Bucharest. Currently she is a visiting fellow at the European Institute in Firenze (Italy).

Pavel Ovseiko is a graduate research student at Jesus College, Oxford examining politics of health care reform in Eastern Europe. His educational background is in Economics and Statistics (Minsk, 1994), Social Work
and Social Administration (Moscow, 1999), and Diplomacy (Malta, 2003). He worked as a research officer with the Belarusian Ministry for Statistics and Analysis, as a policy consultant to the Russian Yabloko Party, and as a research assistant in the British House of Commons. More recently, he held a Visiting Fellowship at the Max-Planck-Institut für Gesellschaftsforschung, Cologne and an International Policy Fellowship at the Centre for Policy Studies, Budapest.

**Martin Potůček** is Professor of Public and Social Policy and Head of the Center of Social and Economic Strategies at Charles University (Prague, Czech Republic). He is also a Permanent Guest Professor at the University of Constance, Germany.

**Katarina Staroňová** is the Deputy Director for Strategy and Program Development at the Open Society Foundation in Bratislava (Slovakia) and at the department for Political Science, Comenius University Bratislava, Slovakia. At the time this article was written, she was a scholar at Woodrow Wilson International Center in the United States.

**Peter Szegvari** is a Deputy State Secretary and Chief Advisor to the Cabinet Office in Hungary. He also holds posts as Assistant Professor in the Constitutional Law Department in the Faculty of State and Law Sciences at Eotvos Lorand University in Budapest. He is also an Assistant Professor of Political Sciences at the Budapest School of Politics and an Assistant Professor of Economics and Public Administration at the Budapest University.

**Kristiina Tõnnisson** is working as the researcher at University of Tartu in Estonia and is presently on exchange at the University of Leiden in the Netherlands. Her main research interest is local governments in transition.

**Michiel S. de Vries** is an associate professor in comparative public administration at the University of Nijmegen (Netherlands). He has published several research papers and books. His research interest lies in the field of policy change and comparative research into the development of administrative systems and policy.

**Ildar Zoulkarnay** is an Associate Professor at the Bashkir State University in Russia. He has won a number of awards and has written widely on economics and public administration.
Index

A
Ablyatifov, Rustem  12, 129
academics  7, 9, 25, 73
accession  11, 19, 20, 21, 33, 73, 85, 87, 90, 97, 98, 100, 105, 106, 126, 206, 207, 239, 251, 254
accountability  31, 43, 101, 103, 181, 185, 191, 197, 212, 214, 249, 255, 261
acquis communautaire  98, 100
agricultural collectivization  129
Albania  38
Amendment Act  215
anti-corruption  14, 254, 255, 256, 257, 259, 260, 261
appointees, appointee  121
Archives Act  215
Armenia  38
Armenian  130
Asia and Middle East  18
Associated Acts  215
attitudes  11, 49, 50, 51, 52, 53, 56, 57, 58, 61, 64, 246, 247, 250
Austria  84, 85, 87, 90, 107
authority  9, 20, 23, 24, 68, 70, 78, 79, 84, 101, 106, 113, 131, 185, 189, 191, 203, 212, 214
AWS, Solidarity Electoral Action  119, 120, 121, 122, 128

B
bailouts  145, 147, 149, 162
Balkan  244, 246
Bashkortostan  12, 164, 165, 166, 167, 168, 169, 170, 171, 173, 174, 175, 176, 178, 179
Bavaria  84
Bayram, Rustem  137
Belarus  11, 49, 51, 53, 56, 62, 63, 64, 66
Belogorsk  12
Bielecki, Jan Krzysztof  112, 115, 126
big bang  26
Bishkek, Kyrgyz Republic  130
Bohemia  196
bond, markets  160, 189
borderline, borderlines  111, 112, 123
Brussels  108, 109, 110, 206, 207, 222, 245
Bryce, Herrington. J  12, 180
Bryson, Phillip  13, 193, 194, 195, 205, 207
Budapest  44, 92, 141, 222, 224, 228, 230, 236, 242
budgetary allocations  13
budgeting  73, 79, 159, 160, 190
budgets  13, 147, 157, 159, 160, 161, 170, 173, 181, 182, 184, 185, 186, 189, 191, 195, 200, 201, 204
Bucharest  7, 28, 253
Bulgaria, 243, 248
Buzek, Jerzy  119, 120, 121, 122, 123

C
capacity building  9
Central and Eastern Europe  7, 9, 14, 18, 24, 27, 28, 29, 31, 33, 37, 38, 52, 73, 111, 126, 139, 141, 226
Central and Eastern European societies  10
central-local relations  11, 52, 55, 57
centralisation  111
CIS, Commonwealth of Independent states  130, 244
CIVICUS  28
Civil Service Act  12, 76, 118, 121, 122, 123, 124
Civil Service Law  68, 69, 70, 71, 79, 81
civil service reform  12, 68, 251
civil society  9, 19, 25, 29, 83, 90, 228, 247, 257
Civil Society Index  28
Index

clientelism 32, 117
co-operation 29, 81, 101, 102, 105, 216, 217, 218, 219, 237, 239, 255, 262
co-ordination 260
Coalition Agreement 67
cognitive environment 29
cohesion 11, 33, 97, 98, 99, 107
collaboration 28, 218
colonial policy 129
commercial credit 160
communication 29, 35, 92, 213, 214, 217
Communism 18, 249, 250
Competency Law 67, 70, 71, 82
concentration 23, 26, 98, 102, 103, 107, 120, 186, 191
conflict resolution 11, 52, 54, 57, 59
constitution 31, 73, 106, 107, 131, 153, 159, 237
Copenhagen criteria 33
Copyright Act 215
Cornia, Gary 13, 193, 194, 205, 207
Corruption Perceptions Index 28
cosmopolitanism 18
Council of Europe 133
Crimea 12, 129, 130, 131, 132, 133, 134, 135, 137, 140, 141
Crimean, Tatars 12, 129, 130, 131, 132, 133, 134, 135, 137, 138, 139, 140, 141
Crimean Tartars 12, 129, 131
crisis management 25, 28
Croatia 38, 245
CSF, Community Supporting Framework 100
cyber-sphere 18
Czech 195
Czech Republic 13, 28, 29, 31, 32, 33, 38, 44, 45, 83, 84, 85, 86, 87, 88, 89, 90, 91, 92, 93, 193, 194, 195, 196, 198, 199, 200, 201, 202, 204, 205, 206, 207, 208, 242
Czechoslovakia 68, 89, 195, 196
Chechnya 51
Cherepovetz 185, 186, 187, 189, 190, 192
Chernobyl 84

D
Databases Act 215
de Vries, Michiel 11, 49
debt 103, 146, 147, 150, 151, 153, 159, 160, 161, 188, 189, 191
decentralisation 9, 11, 12, 13, 68, 98, 100, 101, 102, 106, 107, 111, 114, 145, 153, 154, 155, 162, 163, 180, 181, 186, 191, 192, 193, 194, 196, 197, 198, 206, 207, 226, 228, 229, 250
decision-makers 26, 28, 29, 101, 243
Decree, Verkhovna Rada 131
democracy 12, 30, 31, 35, 36, 49, 63, 83, 84, 91, 97, 98, 106, 111, 193, 194, 199, 204, 206, 213, 226, 243, 251
Democratic Coalition 68
democratic mediation, interests 30
democratic values 11, 17
democratisation 13, 49, 89, 106, 226
democratisation 226, 227
demographic shifts 18
developed countries 18, 38, 259
devolution 12, 111, 180, 181, 186, 193, 196
Digital Signature Act 215
discretionary payments 155
disintegration 214
Djemilev, Mustafa 133
DRGs, Diagnosis Related Groups 228
Index

gerontocracy 233
Global Barometer 28
global context 37
global hegemony 18
globalisation 18, 27, 33, 34, 37, 257

gminas
  local governments 12, 145, 153, 154, 155, 156, 157, 158, 159, 160, 161

good governance 10, 13, 17, 20, 23, 28, 29, 30, 31, 33, 34, 37, 38, 43, 44, 98, 212, 214, 220, 221, 243, 249, 261

Gorbachev 51

governance indicators 28, 35


GPs, general practitioners 234

Greece 99, 105, 164

Greek
  Ipeiro 11, 98, 130

Gross National Income 51

grosso modo 57

grubka kreska, a thick line 113

Gurba, Bartłomiej 12, 145

H

harmonisation 100, 102, 218

HAUS, Finnish Institute of Public Management 260

health care reform 226, 236

health sector 224, 225, 226, 227, 228, 229, 230, 234, 235, 236, 237, 238, 239, 240

history 10, 17, 18, 19, 20, 25, 61, 77, 83, 125, 127, 194, 224, 247

Hrach, Leonid 133, 134, 135, 139

human rights 33, 34, 133, 206

Hungarian Coalition Party 68

Hungary, Hungarian 13, 38, 90, 224, 225, 226, 231, 232, 234, 236, 238, 242

hydrocarbon fuels 86

hygiene 225

hyperinflation 51

I

IC, incentive-compatibility constraint 152

ICT, Information and Communication Technology 213, 214, 215

imbalance
  vertical, horizontal 27, 34, 145, 146, 149, 150, 151, 152, 155, 157, 159, 160, 161, 162, 196

income level 17

income policies 11, 55, 57, 64

industrial restructuring 9

inequality 12

inflation 50, 51, 52, 160, 197, 237


innovation 25, 104, 107
integration  19, 29, 37, 98, 103, 108, 131, 157
intergovernmental relations  165, 166, 169, 170, 176, 205
intervention  20, 29, 91, 148
interweaving  32, 43
Ionita, Sorin  13, 243
IR, Individual rationality constraint  152
Islam, Islamic  17, 18

J
Janik, Krzysztof  123, 125
Jonauskis, Mantas  14, 254

K
Kaczmarek, the Minister of Treasury  123
Karaites  131
Kazakhstan  38
korenizatsiya  129
Kosovo  38
Krasnokamski  12, 167
Krymchaks  131
Kurultay, National Assembly  131, 135, 137
Kyrgyzstan  38

L
Latvia  38
Law, Civil Service  67
Law on Corruption Prevention  256, 262
leadership  11, 52, 53, 54, 56, 59, 64, 77, 78, 79, 132, 133, 134, 206, 221
legitimacy  9, 31, 32, 33, 50, 101, 108
lethal weapons  18
liberalisation  9, 13, 226, 228, 245
liberty, libertarian values  17
LIPA, Lithuanian Institute of Public Administration  261, 262
LIPA, Lithuanian Institute of Public Administration  259, 260
Lithuania
Lithuanian  11, 14, 38, 43, 49, 51, 53, 56, 58, 62, 64, 254, 255, 256, 257, 258, 259, 260, 261
local governance  52, 170, 221
locality, localities  12, 145, 147, 148, 149, 173, 176, 179, 189, 228
London  11, 14, 17, 44, 65, 98, 108, 110, 221, 222
loophole  123
low trust  81
Lund Recommendation  140

M
Maastricht, Treaty  107
Macedonia  38
Majcherkiewicz, Tatiana  12, 111, 112, 126
marginalisation  11, 81
market  17, 18, 19, 32, 33, 36, 43, 49, 51, 52, 86, 103, 133, 160, 180, 189, 194, 195, 197, 199, 206, 228
Mazowiecki, Tadeusz  112, 113, 114, 115, 116, 124
Meciar, Vladimir  68
media  9, 19, 23, 28, 32, 36, 43, 50, 83, 107, 121, 216, 236, 259, 261
Media councils  32
Mejlis  131, 133, 135, 138, 140
Mejlises  135
meritocracy  232, 233
Miller  61, 65, 119, 122, 123, 126, 128
Ministry of Education  76, 77, 82
Ministry of Health  76, 236, 238, 241
Ministry of Justice  71, 76, 77, 82
Ministry of Labour  76
Ministry of the Interior  33
Ministry of Transportation  76, 82
minorities  11, 12, 30, 36, 52, 54, 56, 90, 131, 132, 206
Mishkinski rayon 12, 167
mistreatment 14, 250
moderation 27
modernisation 123, 215
Moldova 38
moral hazard 194, 198, 225
Moral hazards 194, 198
Moravia 196
municipality 84, 172, 199, 211, 214, 217, 221

N
Nash equilibrium 148
National Anti-Corruption Programme 255
NATO 18, 37, 51
natural disasters 27
Netherlands 38, 49, 51, 52, 53, 57, 58, 62, 63, 64, 66
NGO 77
NGOs 19, 87, 90, 262
NHIF, National Health Insurance Fund 228, 231
nomenklatura, communist 113, 114, 117, 120, 124, 193
nuclear reactor 11, 83, 84, 90
NUTSNomenclature of Territorial Units for Statistics 103, 104, 105

O
OECD 37, 67, 69, 212
OeDP, Environmentalist Democrat Party 84
Official Statistics Act 215
Olszewski 112, 115, 126
openness 29, 101, 103, 184, 185, 212, 213, 261
opportunities 12, 20, 21, 22, 25, 29, 55, 97, 125, 132, 216, 220, 227, 235
OSCE 132, 133, 141
over-fixation 24
Ovseiko, Pavel 13

P
parliament 9, 23, 24, 68, 69, 76, 77, 78, 116, 131, 132, 133
parochialism 11, 55, 57, 60
participation 9, 11, 29, 30, 43, 49, 52, 54, 55, 57, 59, 64, 88, 89, 101, 107, 108, 134, 138, 139, 140, 145, 149, 150, 151, 152, 157, 184, 212, 219, 227, 240
participatory principle 101
partnership 29, 100, 101, 102, 103, 221
party patronage 12
Passau Municipal Assembly 84
path-dependent 10, 226
Pawlak, Waldermar 112, 116, 117, 118, 123, 127
perceptions 9, 33, 57, 64, 67, 74, 78, 79, 80, 81, 189, 212
perceptions, perception 11, 28, 47, 62, 67, 78, 80, 249
period effects 58, 61, 62
Personalism 220
Peters, Guy 67, 126, 213, 222
pharmacies, pharmacy 231
Pippidi, Mungin 13, 243, 253
Poland 12, 38, 43, 49, 120, 122, 124, 125, 126, 127, 128, 145, 153, 157, 161, 162, 242
Polish 12, 111, 112, 115, 116, 118, 123, 124, 145, 160
Poland.

Polish 12, 122, 127, 161, 162
policy advisors 24, 25, 78, 79
policy problem 86
policymakers 9, 10, 11, 28, 64, 84
Political pressures 20
politicians 25, 228
politics 12, 18, 19, 32, 36, 43, 67, 89, 90, 110, 113, 162, 200, 217, 226, 240, 243, 251
poor governance  13, 214, 249, 251
population  12, 22, 31, 33, 51, 63, 99,
104, 120, 129, 131, 132, 133, 135,
138, 139, 140, 164, 174, 184, 185,
186, 189, 191, 200, 215, 224, 225,
237
Portugal  99, 104, 105
post-communist countries  27, 89
Potucek, Martin  10, 27
power  23, 32, 91, 196, 235
powiats  153, 154, 156
principle, proportionality  69, 71
private sectors  13, 259
privatisation  9, 32, 52, 181, 195, 217,
228, 237, 240, 261
privatization  32
professionalism  81
PSL, Peasant Party  116, 117, 119, 122,
123, 125, 126
public administration  12, 14, 23, 26,
28, 31, 35, 36, 37, 68, 97, 102,
104, 106, 107, 111, 112, 118, 119,
124, 125, 154, 207, 218, 220, 250,
251, 256
public authorities  13
Public Information Act  215
Public Procurement Act  215
public sectors  9, 12, 13, 14, 19, 20, 22,
23, 24, 26, 27, 28, 29, 30, 31, 32,
33, 34, 35, 36, 37, 43, 52, 57, 62,
63, 64, 68, 77, 78, 81, 83, 84, 85,
86, 87, 90, 91, 97, 98, 101, 102,
104, 106, 107, 111, 112, 118, 119,
124, 125, 129, 131, 132, 133, 138,
140, 145, 146, 147, 148, 149, 153,
154, 157, 159, 160, 161, 162, 164,
165, 166, 167, 169, 170, 172, 173,
174, 175, 180, 181, 182, 184, 185,
186, 187, 189, 190, 191, 193, 194,
195, 196, 197, 200, 203, 205, 207,
211, 212, 213, 214, 215, 216, 217,
218, 219, 220, 221, 222, 224, 225,
227, 228, 229, 230, 231, 232, 235,
236, 237, 238, 239, 240, 243, 244,
246, 247, 248, 249, 250, 251, 252,
254, 255, 256, 259, 260, 261, 262
Putnam  83, 89, 92, 250, 253
R
realignment  191
reform  33, 34, 68, 113, 114, 116, 117,
118, 119, 120, 127, 153, 154, 158,
161, 164, 170, 196, 207, 211, 215,
224, 225, 226, 227, 229, 232, 236,
237, 239, 240, 245, 247, 251
regionalisation  97
regionalism  97, 107
regression analysis  14, 61
regulation  23, 32, 35, 36, 69, 71, 86,
102, 103, 104, 106, 107, 117, 178,
225, 227, 228, 237, 238, 239, 240,
245, 249
replacement  64, 120, 181, 189, 214
representation  12, 30, 72, 77, 101, 107,
115, 129, 130, 131, 132, 133, 134,
139, 140, 191, 221
resource dissipation  103
revenues  12, 13, 145, 146, 147, 148,
149, 150, 151, 153, 155, 156, 157,
158, 159, 160, 161, 162, 167, 168,
169, 170, 172, 173, 175, 176, 182,
184, 185, 186, 187, 188, 190, 191,
195, 197, 198, 201, 204, 240
risks  12, 34, 85, 216
Romania  243, 244, 245, 246, 247, 248,
249, 250, 251, 253
Rome, treaty  17, 31, 100, 108
ruptures  10, 18, 19, 20, 21, 22, 24, 25
Russia  11, 14, 38, 49, 51, 53, 56, 58, 62,
64, 86, 90, 92, 129, 130, 134, 178,
180, 181, 184, 188, 189, 191, 192
Russia, Russian  12, 51, 90, 129, 130,
134, 137, 164, 165, 166, 169, 172,
173, 174, 175, 176, 178, 180, 182,
183, 184, 187, 189
Index

S
Salzburg Platform Against Nuclear Danger 88
scenario 21, 152, 161, 241
Secretary, Permanent Commission of Agricultural and Landed Issues, Ecology and Nature Resources Conservation
anded Issues, Ecology and Nature Resources Conservation
ion 137
security 17, 18, 33, 34, 36, 85, 107, 113, 120, 132, 141, 190, 205, 218, 228
seimas, parlament 255, 256
Sejm 113, 119
self-government 161
semi-autonomous 97, 103
Senat 119
Sevastopol 137
short-termism 20, 23
Siberia 130
SIGMA 69, 82
SIS, Special Investigations Service 255, 257, 261
Slovak 195
Slovak Republic 11, 13, 38, 67, 68, 69, 73, 76, 78, 81, 90, 92, 193, 194, 195, 196, 199, 200, 204, 207
Slovakia 67, 68, 69, 70, 73, 74, 76, 82, 196, 200, 204, 205
social capital 83, 89, 101, 250, 251
social services 17, 153, 154, 179, 187
socialism 111, 113, 116
socialist government, regime 51, 129, 195, 207, 225, 238
society 10, 11, 28, 29, 30, 32, 63, 65, 83, 90, 131, 135, 180, 212, 215, 216, 219, 224, 243, 246, 247, 250, 255, 260
Soviet Union 51, 65, 66, 87, 113, 129, 130, 134, 164, 165, 166, 174, 181, 184, 185, 186, 190, 193, 196, 244, 246
Spain 66, 99, 105, 163
spill-over effects
grants 145, 146, 154
spill-overs 146, 147, 148
stakeholders 77, 102, 211, 214, 219, 220, 243
stakeholders, stakeholder 87
Staronova, Katarina 11, 72, 73, 76
starvation 130
State 9, 10, 13, 31, 33, 34, 44, 45, 68, 75, 82, 99, 100, 102, 120, 121, 129, 130, 131, 138, 141, 159, 172, 183, 193, 202, 203, 207, 209, 215, 222, 239, 262
state secretary 11, 71, 72, 73, 74, 75, 76, 77, 78, 79, 81
status quo 11, 21, 85, 235, 240
Stracz 116, 117
Strasbourg 245, 255
strategic mind 25
strategic thinking 24, 30, 33, 43
strategies 35, 73, 75, 153, 219, 239, 247, 259
strategy 22, 26, 100, 236, 238, 239, 256, 261
sub-sovereign 97, 106
Suchocka 112, 115, 118, 125
Sweden 11, 49, 51, 52, 53, 57, 58, 62, 63, 64, 99, 110, 186
systematicality 102
Szegvari, Peter 11, 97

T
Tallinn 7, 216
Tartu 7, 216, 222
Temelin 83, 84, 85, 86, 87, 88, 90, 91, 93
terrorism
terror 17
threats 12, 18, 29, 85
three-tiered system 153
Tonnisson, Kristiina 13, 211
transformation 18, 19, 27, 28, 31, 32, 33, 68, 196, 219, 251
transparency 29, 31, 43, 68, 101, 103, 166, 169, 212, 216, 248, 261
Treaty, Rome 99
tribalism 18
tyrranies 21
U
UD, Democratic Union 115
Ukraine 11, 38, 43, 129, 130, 131, 133, 134, 140, 141, 225
Ukrainian 12, 129, 130, 132, 133, 134, 135, 138, 139, 140, 141
unemployment 18, 33, 50, 51, 52, 88, 99, 100, 104, 105, 153, 188, 195
United Kingdom 38, 222
USA 38, 53, 127, 230
UW, Freedom Union 119, 120, 123, 128
Uzbekistan 138
V
values 9, 17, 18, 19, 21, 43, 49, 50, 52, 53, 57, 58, 61, 62, 64, 174, 197, 226, 246, 247, 256, 260
Velvet Revolution 196, 205
Verheijen, Tony 67, 82, 126
Verkhovna Rada, National Legislature 131, 133, 134, 135, 137, 139, 140
veto-powers 236
Vienna 88, 110
voivodes, voivode 12, 112, 113, 114, 115, 116, 117, 118, 120, 122, 123, 125
Volgoda 184
W
war 17, 50, 51, 129, 245
weave, future 18, 19, 20, 21, 23, 24, 25, 26
websites 23
Westernisation 67
Westinghouse 85, 87
Wildasin, model 146, 148, 149, 150, 152, 162, 163
Wlodarczyk, Wojciech 115
World Bank 28, 51, 52, 66, 126, 172, 178, 207, 208, 253, 259
World Business Environment Survey 28
World Competitiveness Yearbook 28
Wrocław 117
Y
Yeltsin 51, 192
Z
Zawislak 115
Zoukarnay, Ildar 12
In public administration theory and practice, the 21st century has been marked by a shift of emphasis from efficiency (often simplified as cost-saving, downsizing, and outsourcing) to effectiveness, due to the realization that nothing is so expensive and unproductive as a badly-working civil service. In developing and transition countries, a productive civil service is even more important. Yet, in order for the public administration and “government” to work (and work well) “capacities to govern” must be developed. These capacities include capacities related to setting strategic direction, building capacity to implement policy, and building new ways of financing public goods and services, as well as – especially in development and transitional countries – to absorb funds and manage programs. The purpose of the present collection of rigorously selected and thoroughly edited contributions to the NISPAcee 11th Annual Conference (which took place in Bucharest, Romania, in 2003, under the heading “Enhancing the Capacities to Govern: Challenges facing the Central and Eastern European Countries”) is to contribute to that discourse and to discuss the nature of effective civil service and public policy in general, but especially in the Central and Eastern European region. The selection includes both theoretical and empirical cases, mostly from and about the region, often about countries or cases that have hitherto received scant, if any, scholarly attention in public administration.