Title: The Story of a Decade of Centralisation in Hungary. Framing the Current Public Administration and Public Policy Development Path

Subtitle: Hungarian Experience in Handling the Economic Crisis at the Local Level

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Abstract

The paper offers an interpretation of Hungarian public administration reforms explained by power distribution between centralized and decentralized institutions. The period of Hungarian institutional development path discussed in this article – starting from the year of the regime change and the fall of the "Iron Curtain", 1990 until the current year, 2017 – can be displayed in four stages: "democratization" from 1990 until 1998, the beginning year of the EU accession negotiations; "Europeanization" as preparing for EU accession until 2004 when, Hungary became full member of the EU together with 9 other countries located between German speaking Europe and Russia. The next phase can be earmarked as the "failed quest for efficiency" until 2008 when the liquidity of the Hungarian state budget collapsed and Hungary had to turn to the IMF. Finally – still lasting – "the aftermath of the financial and economic crisis" should be mentioned since it has strongly shaped the characteristics of the development path of the country's institutional settings ever since.

Apart from giving a descriptive analysis of the stages of the developments, the article explains why each development stage had to give way to the next one. In contemporary academic literature on the Hungarian developments there is a dominant view that decentralization is an essential attribute of democratization and vice versa: centralization is an unquestionable symptom of anti-democratic tendencies. The article offers an explanation on such dilemmas as well as providing an outlook for the future of the level of centralization in Hungarian public administration.

Key words: democratization, politicization, centralization, decentralization, regime change

1. Introduction

Hungary used to be one of the most promising young democracies after the fall of the Berlin wall. In fact, the first frays on the Iron Curtain appeared on the border of Austria and Hungary,[1] followed by the sudden collapse of Communist totalitarianism in the entire region

[1]Celebrations of the 25th anniversary of the historic event have been held: http://www.politics.hu/20140627/hungary-austria-slovakia-mark-25th-anniversary-of-iron-curtain-opening/ retrived: 15. 10. 2018.

(Jenei, 2011). The key role of the country regarding Central and Eastern European regime changes is connected to its central location and to its relatively small size but also to its vivid memories of an armed revolution against Communism in 1956.

By 1989, a pluralistic, democratic constitutional state came to life, having first elections in 1990, whereas local governments had a vital role in the process of democratization. In 1989-1990, the "Big Bang" of the regime change affected the entire constitutional system – with certain flaws that are discussed in the followings. In the formal sense, however, the constitution itself remained communist Act No. XX 1949 until finally replacing it with a new one in 2012.

2. Regime change with flaws

The relative smoothness of the regime change had many shortcomings but undoubtedly had a historic advantage: Hungary appeared to be the forerunner of stability and prosperity, especially when compared to surrounding countries like the former Yugoslavia entangled in a series of desperate wars, Romania or to the Soviet Union throughout the 1990s. (Milanovic, 1997. p. 2.) The relative smoothness of the transition stemmed from the following historic specialties.

The 1956 revolution and armed uprising had a deep psychological effect on the communist elite, causing them to carefully avoid all potential conflicts with the society. Unlike other communist elites in the region in the 1980s, the Hungarian political elite were very much aware that the seeming stability of the dictatorship had been profoundly delusive and had the potential for changing again (Niklasson, 2006). While longing for internal stability, the communist state launched gradual reforms on the restoration of individual property and established certain latitude for entrepreneurship. Such easing happened in connection with Hungary entering the IMF in 1982 and receiving loans from it (Act-Force Statute No. 6. 1982). Preparation for the regime change took impetus when new company law was issued in 1986 which lied the tracks for privatization. Privatization begun under communist control from Communist state to individuals and groups loyal to the Communist regime. The Communist influence was tangible in the most important fields of the economy like telecom, media, culture, banking, foreign affairs, trade, justice, real estate and logistics (Ungváry, 2008). The communist elite began preparations for a soft transition already in the early 1980s, supported by 800.000 Party members, approximately 50.000 internal secret contacts, and

10.000-20.000 secret police (Communist secret service files are still unavailable to the public: partly re-classified, partly disappeared) (Takács, 2013). With such background, the successor of the Hungarian Socialist Workers' Party won the democratic elections in 1994 under the name of Hungarian Socialist Party. The regime change itself has been orchestrated in two phases. The first and most important phase constituted of the smooth transition of ownership structures that had happened before new democratic values and institutions based on the rule of law could be established thus change in economic ownership took place before the political regime change. The second phase of the regime change established democratic institutions. Naturally, new institutions took time to take shape under due legal processes. The asynchronous nature of the regime change in terms of changing state ownership to private owners and in terms of the rule of law involved that newly established ownership rules and other legal institutions provided entrenchment for those who successfully transferred political clout into economic power in the late 1980s and early 1990s. The non-democratic nature of this phenomenon was soon recognized by only a minority of foreign observers. (Ayres-Braithwaite, 1992. p. 7.)

Regime change in local governance

The Communist regime did not consider any unalienable human rights and implicitly rejected the right for local governance or local self-governance. Local public administration entities (the soviets) were directed from the government of furthermore from the Party (Hungarian Socialist Worker's Party). Naturally, citizens did not have the right to vote on local elections at the time of the Communist dictatorship. Furthermore, municipal borders used to be altered by Party Decisions under the label of efficiency increase. With such reasoning, many municipalities lost their legal entity status and were artificially amalgamated with bigger towns or cities. This practice has had a long lasting effect on the Hungarian public administration namely that mergers of local governments have constantly been constitutionally forbidden.

Designing the local government system was an important part of the smooth transition. The law on local governments was issued by the new Parliament in 1990 but it had been prepared by the Ministry of Interior before the regime change happened. (Gellén, 2012. p. 154) Throughout the years of the 1990s it turned out that the Hungarian Socialist Party (successor of the Hungarian Socialist Worker's Party) could effectively use local politics for maintaining its territorial network of interests and cadres. This turned out to be obvious later on when

former heads of local soviets (typically former Party commissars) successfully rebooted their former careers as elected town mayors (Ellis, 1997). Paradoxically, democratization in terms of decentralization at the municipal local government has proved to be a factor of conserving old political networks in power rather than ousting them and replacing them with new ones. Political contradictions of the early transitional period offer an understanding of why the Hungarian path to administrative development did not prove to be a continuous success story throughout the ensuing decades (Orenstein 2008).

Apart from the internal flaws of the regime change, it is important to mention that unlike in the case of Poland,[2] Hungary did not receive any debt relief from international creditors as an encouragement for democracy and stability. Therefore earlier state loans were used partly to finance WWIII and partly to increase internal consumption in order to preserve political stability in the country. (Yarashevich, 2013)

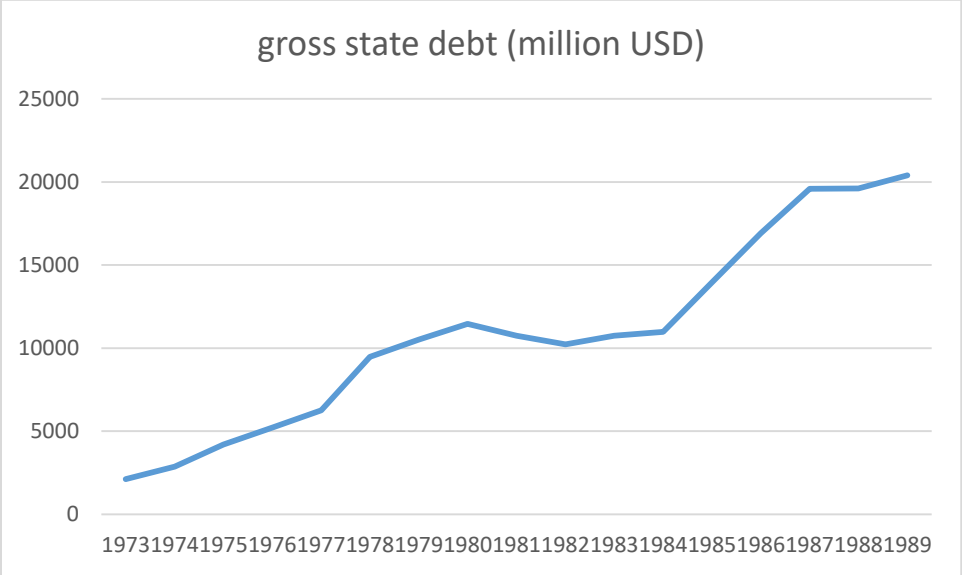

Diagram No. 1. Gross state debt of Hungary (1973-1989) Source:portfolio.hu[3]

Indebtedness shall be identified as a decisive circumstance in Hungarian public sector reforms because economic efficiency (based on the motive of paying back loans) has been one of the most important characteristics of the Hungarian development path.

[2] For further details of debt relief for Poland that amounted to 40% of inherited state debt, see NY Times article from 1994: http://www.nytimes.com/1994/03/12/business/western-banks-to-relieve-40-of-polish-debt.html retrived: 15. 10. 2018.

[3] http://www.portfolio.hu/gazdasag/igy_keletkezett_a_magyar_allamadossag.225866.html retrived: 15. 11. 2018.

3. Characteristics of centralization-decentralization balance between 1990 and 1998: "democratization and its discontents"

According to the new legal setting enacted in 1990, the local-governmental system was composed of two tiers: at the upper tier there were the nineteen counties and the capital city of Budapest and, at the lower municipal tier, almost 3,200 local governments run by elected councils (Verhoest et al. 2012, p.289). The local governments had a high political legitimacy supplemented with financial autonomy. Political and legal autonomy was untouched throughout the decades but financial latitude was gradually cut back by various governments. To give an impression on the process I include the most important examples:

- The path of development contained the abolition of social security local governments in 1998 (Act No. LXXXIV. 1991), an independent local government system that operated so inefficient that its operations erased a decisive percentage of national social security asset value. (Munkaügyi Levelek, 1998)
- The re-distribution of local income taxes was also cut back in the 1990s. (Horváth et al. 2014)

Besides the financial contraction, the tasks of the local governments tended to widen throughout the years. The widening process was enabled by the opportunity to increase the amount of "delegated competences" with insufficient central funding or no funding at all. The two parallel processes resulted in a phenomena that domestic public administration theory called "conflict container" (Pálné, 1990) that was by nature a financial problem as increased tasks were not matched by public funds.

Administrative and welfare systems became under unbearable pressure because of social and economic collapse by the mid 1990s. The first correction of the newly established democratic administration and public services system took place in 1995 (Kornai, 1996). In 1995 the coalition government consisting of the Hungarian Socialist Party and the Alliance of Free Democrats (a minor leftist liberal party) had to launch a vast fiscal correction plan called the "Bokros package" after the name of the minister in charge of public finances of that time. The austerity package has been an emblematic event of the young Hungarian democracy ever since known for its indiscriminate nature of leaving complete social sectors – especially in education, health, pension and social care sectors – with insufficient financing despite the relative success of these sectors in stabilizing society by remedying joblessness after the collapse of traditional state owned industries (OECD 2008 p. 57-139). In 1996, Hungary had

to re-enter a standby loan agreement with the IMF. The nature of post-communist systemic meltdown is well-known in the entire Central and Eastern European region of this time hallmarked by collapsing oversized state-owned enterprises after the loosing foreign markets (primarily due to the lack of solvency of post-Soviet trading partners) (Román, 2005. pp. 55-56)

Two other tendencies are important to mention that characterize the "democratization" era of Hungarian public administration.

The first to mention is that Hungarian decision makers realized that 3200 legally equal, fully competent local governments are too costly to operate therefore they created a new, relatively innovative policy to operationally merge local governments (i. e. municipal local governments) without legally merging them. Top-down legal mergers were prohibited by the constitution that protected local autonomies by acknowledging the right for self-governance of the highest level. Therefore, policy makers created incentives for local governments to establish partnerships of cooperation for operating their institutions (especially in education and public health sectors) together but also in sanitation or road maintenance finally local notary offices were merged. This was a gradual process, incentives were given in a step by step fashion to partnerships in different policy areas. Municipalities that were well-off and had a lot of extra incomes from local industrial taxes had more latitude to resist but the majority of municipalities were financially unable to resist central incentives in order to maintain their operational independence.

The second characteristic tendency is inflow of western advise and funding for technical assistance in order to shape and stabilize young democracies of the region. It would exceed the limits of this article to elaborate the details that were nicely collected by Iwona Sobis and Michiel de Vries in an emblematic work (Sobis, de Vries, 2009).

4. Europeanization: preparing for EU membership, 1998-2004

Hungary had signed the partnership agreement with the European Communities in 1991 however, concrete accession negotiations started only in 1998 and lasted until 2002. Accession happened together with 9 other countries of the region from Malta to Estonia on 1st of May, 2004.

According to Sobis and de Vries (2009), EU and it's earlier form, the European Communities gradually became the most important international donor organizations for public administration reforms in Central and Eastern Europe. EC began to install their own agenda on member states in early 1990s based on the idea of decentralization in connection with the view of nation states as obstacles in the way of the four freedoms: free movement of capital, goods, services and labor. To put it forth in a rather simplistic way: the less national boundaries of the four freedoms, the better the integration was thought to be therefore EU introduced ***regionalization*** by built-in incentives in the structural development funding scheme. The strategic development plan of the EU for the period of 2000-2010, also known as the Lisbon Strategy[4] had the aim to establish a system of various entities as partners below the national level as follows "A fully decentralised approach will be applied in line with the principle of subsidiarity in which the Union, the Member States, the regional and local levels, as well as the social partners and civil society, will be actively involved, using variable forms of partnership. A method of benchmarking best practices on managing change will be devised by the European Commission networking with different providers and users, namely the social partners, companies and NGOs." (Lisbon Strategy, 38. 2010) This new vision for the public administration geography of Europe was intended to be established through cohesion policy that enabled access to development funds for territorial entities matching the NUTS (Nomenclature of Units for Territorial Statistics) system which defined three levels of NUTS regions eligible for various forms of funding.

Level	Minimum (population)	Maximum (population)
NUTS 1	3 million	7 million
NUTS 2	800,000	3 million
NUTS 3	150,000	800,000

Table No. 1. Clarification of NUTS regions

[4] http://www.europarl.europa.eu/summits/lis1_en.htm retrived: 19. 08. 2017.

In the case of Hungary, the entire country became NUTS 1. region additionally, every three counties (except Budapest and Pest County which formed Central Hungary, >>Közép-Magyarország<<) formed a NUTS 2 region, while 175 NUTS 3 small-regions were established. This enormously complicated patchwork of NUTS regions cooperating with national, county- and municipal level public administration institutions is displayed in the following chart.

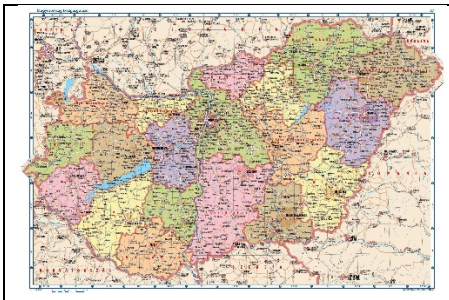		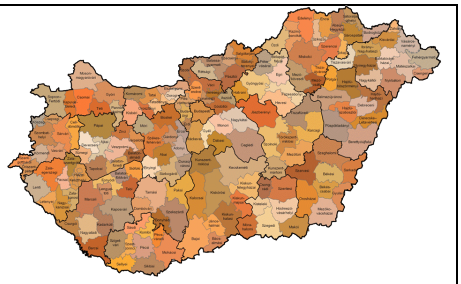
Municipal level and county level public administration of Hungary[5]	NUTS 2 regions formed by 3 counties each except for Central Hungary[6]	NUTS 3 small regions (175)[7]

Table No. 2. Layers of public administration map of Hungary after Europanization

As a result of Europanization it can be found that layers of Hungarian domestic public administration and NUTS regions intersected and gave a staggering patchwork of administrative bodies as follows:

1. Municipal level (In Budapest, even district level),
2. NUTS 3 small region level,
3. County level,
4. NUTS 2 regional level,
5. National level that equals NUTS 1 level as well.

The vast regionalization policy in Europe was carried out in line with the Lisbon Strategy but in Hungary NUTS regions were established without installing regional elections or without merging regional competences with traditional municipal, county or national public

[5] Source of the map: http://enfo.agt.bme.hu/drupal/node/4774 retrived: 19.08.2017.
[6] Source of the map: https://hu.wikipedia.org/wiki/Magyarorsz%C3%A1g_r%C3%A9gi%C3%B3i retrived: 19. 08. 2017.
[7] Source of the map: http://www.terport.hu/kistersegek/magyarorszag-kistersegei retrived: 19. 08. 2017.

administration competences, Therefore it was more like a cohabitation of European and domestic institutions than a real fusion of new and old institutions. In the meantime, still in the period of the Lisbon Strategy, a global financial crisis erupted in 2008 that ignited Greece as well as many other European countries. The crisis itself and the aftermath weakened trust in European institutions and in the entire European vision and undermined the EU's moral authority to engage in domestic affairs. The Lisbon Strategy proved to be profoundly erroneous and complacent in projecting "The Union is experiencing its best macro-economic outlook for a generation…"[8] in year 2000. In terms of Hungary, the 2008 crisis involved that in October, Hungarian public debt became impossible to sell on the international financial market so the country had to enter into a loan agreement with the IMF (the third time) to avoid insolvency. The global crisis and euro-crisis was to a large extent more damaging in Hungary than in other Central and Eastern European countries because of the already existing internal vulnerabilities of the Hungarian economy.

5. Unsuccessful quest for efficiency between 2004 and 2010

Internal vulnerabilities of the Hungarian economy and state-economy relationship were multifold in the 2000s but the most neuralgic point has been undoubtedly the problem of government debt that arouse sharply after 2002 until the new austerity measures were installed under the supervision of the IMF.

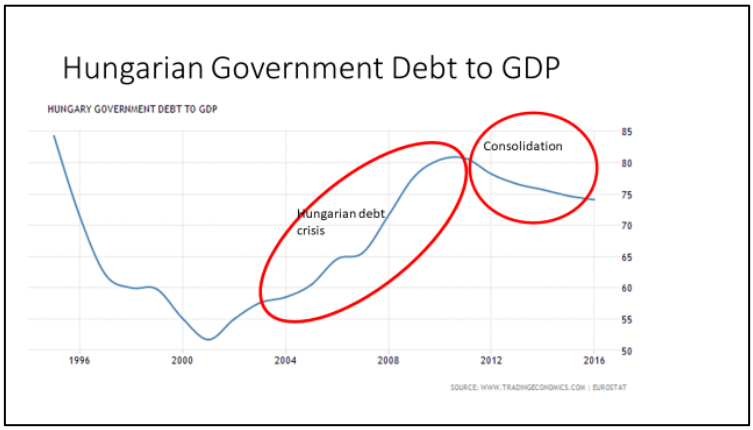

Diagram No. 2. Hungarian Government Debt to GDP ratio 1996-2016. Source: www.tradingeconomics.com

[8] http://www.europarl.europa.eu/summits/lis1_en.htm paragraph 3. retrived: 19. 08. 2017

It is to be observed on Diagram No. 2. that Hungary could only fulfill the Maastricht criteria – used by the EU fiscal governance as a mandatory performance benchmark – in terms of state debt to GDP ratio being under 60% only in the pre-accession period. After 2004 Hungary could never match this criterion and was not released from excessive deficit proceedings applied by the EU.

Due to excessive state debt and to the inability of attracting other external financers, Hungary had to turn to the IMF for a standby loan agreement. The correspondence between IMF and the government in late 2008 and early 2009[9] contained propositions and remarks on reforming highly decentralized municipal and county local government system in Hungary by decreasing the number of local governments. This practically meant merging inefficient municipalities despite constitutional boundaries. Politically this was impossible that time as the government t had no political clout in Parliament to address this issue. Still, the fact that the IMF included this matter among other structural reform items shows that international creditors did care about this sector even if not in the first row. Despite all financers' concerns it can be stated that high level of autonomy of the municipal sector has been contributing to the fiscal durability of the incumbent governments because the local government sector became a kind of universal addressee of public tasks without (sufficient) financing from the central budget. Such delegated tasks disappeared from the budget of the central government that has been under permanent financial pressure primarily by serving debts to international creditors. For municipalities have had diverse resources for additional revenues, certain local governments could survive such central government measures in a financially intact position. However, on the long run, the unfunded delegation of tasks turned out to be unsustainable. While in 2005 the gross debt of municipalities added up to 1,9% of the GDP, in 2009 it was 4,1% (Vigvári 2011. p. 61.). Although the increase appears to be rapid, the gross amount of liabilities used to be modest compared to the amount of gross government debt.

[9] see: http://www.imf.org/external/country/HUN/index.htm retrived: 19.11.2018

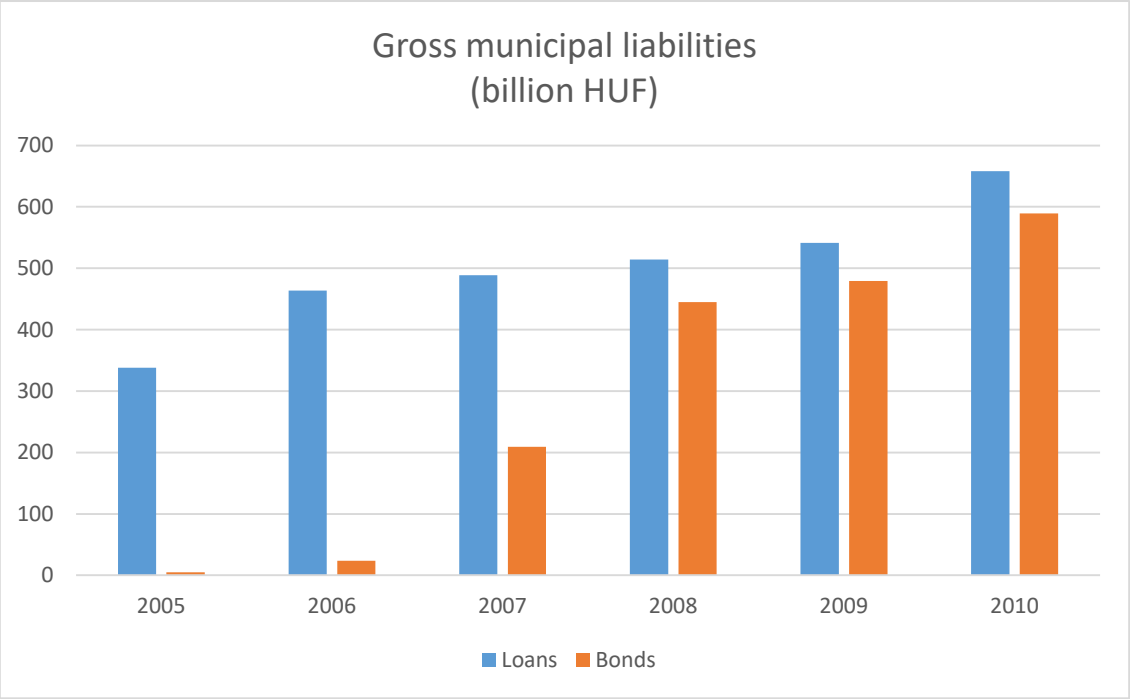

Diagram No. 3. Gross municipal liabilities (billion HUF)

Source:http://vastagbor.blog.hu/2012/10/29/atvallalja_az_allam_az_onkormanyzatok_adossagat (retrived: 25. 08. 14.)

Diagram No. 3. shows the tendency of how local government liabilities increased over the years of 2005-2010. The reason why issuing municipal bonds developed so rapidly was that legal provisions applied a cap on bank loans thus local governments reaching the cap issued bonds for external financing. To a certain extent, this was already a kind of decentralization of fiscal crisis before the big crisis. After the year of 2008, the tendency of crisis-decentralization even accelerated throughout the policy pattern of "conflict container" that had been overexploited already years before the crisis. (Vigvári 2010, Gál 2011, Horváth et al. 2014)

According to Vigvári (2010), the currency composition of the loans was no different from a public finance nightmare. Proportion of bond issues with regard to currency until 2008 was the following:

- EUR: 1%; HUF: 13%; CHF: 86%

From 2008 (Q3) to 2009 (Q3) the currency composition of newly issued municipal bonds was the following:

- EUR 63%; HUF: 22%; CHF: 15% (Vigvári, 2009)

It has to be stated, that certain local governments provided good practices in terms of due diligence and did not engage in any uneven financial practices. Typical examples are the ones that have significant industrial companies on their territory that constantly provide local income taxes (such prosperous municipalities are Budaörs, Paks, Százhalombatta etc.). Unfortunately, good examples did not change the overall picture that the entire sector was heading towards the necessity of being bailed out. The local governments tried to justify their practices arguing that their pursuit for additional external financing came from their ambition for accessing EU funds for local development. In many cases this was true but it did not change the unsustainable character of the municipal sector's financial status (Vigvári, 2009).

6. Centralization as a response to the crisis

Parliamentary elections in April, 2010 radically transformed the country's party system. The conservative Fidesz party received two-third majority at Parliament and the Hungarian Socialist Party was pushed to second position with considerably fewer seats.[10] The newly emerged monocentric political structure offered a historic chance for the government to make all structural changes to amend institutional and financial settings of the country. The new political leadership had the ambition of correcting the birth defects of the regime change that were definitely numerous. The first necessary aim of the new government was to avoid a pattern to unfold that would have been similar to what had been taking place in Greece.[11] Part of the reform was to re-arrange the unsustainable nature of the local government – central government cooperation according to the IMF requests. The standard recipes however (merger of municipal local governments) could not have been applied in the case of local governments in Hungary due to the culturally embedded interpretation of the constitutional notion of the right for local governance. It is also understandable that the central budget – under the close control of the IMF – was not in the position to bail out the local government sector without inflicting financial and policy retaliation. In a paper prepared for an IMF conference on decentralization in Hungary and in Slovakia, Deither (2000) argued that central control on local government budgets should have been enhanced by strict regulations, improved accountability and by the fiduciary responsibility of the central budget. (Deither,

[10] www.valasztas.hu, the official site of Elections' Office

[11] http://www.economonitor.com/edwardhugh/2010/01/22/hungary-isnt-another-greecenow-is-it/ retrived: 20. 11. 2018.

2000. p. 13) In fact, a similar scenario was about to unfold a decade later in Hungary. The government launched a vast public administration reform program (Magyary Plan)[12] under Government Decree 1207/2011. (VI. 28.) in 2011. The reform program aimed at increasing overall efficiency of the entire public administration system throughout modernizing its tasks, personnel, processes and structure. These structural reforms can be labelled primarily as centralization, with the ambition of saving costs and having a firm control on policy processes. The reform that took place in 2011-2013 re-concentrated most of the competencies from local government offices to newly created Government Offices. It is important to mention that there has been a consensus for a long time in domestic public administration legal theory that "original competences" of local governments had to be distinguished from "delegated competences". The most important difference was that "original" competences originated from the constitution – thus could have not been changed – and the democratically elected local assemblies were entitle by them. (Szabó, 2012. p. 30.) "Delegated competences" on the contrary were regulated in lower level legal sources and they addressed the local notary. The "re-concentration" maneuver took the short and simple route to increase efficiency and transparency towards international lenders: since formal municipal independence was untouchable, the Parliament decided to remove the delegated competencies from the municipal notaries and concentrated the competencies at the newly established district administrations (townships). Townships became the local branches of the County Government Offices and they became responsible for all public administrative issues that used to be delegated to the local governments. This somewhat hollowed out the local governments administrative role since approximately 75% of their case load consisted of delegated public administrative cases. Additionally, local governments used to have enormous voluntary tasks (maintaining secondary schools, etc.) and they still have significant "own" revenues such as local taxes on industries, real estate and motor vehicles. The government successfully relocated competences and finances from local government sector to locally operating central public administration, as a result, the following structure came to life:

- Township Government Offices on the local level,
- Township Government Offices act as local branches of County Government Offices, the latter serving on territorial level,
- County Government Offices are directly subordinated to Prime Minister's Office.

[12] Named after Zoltán Magyary (1888-1945) an internationally renowned scholar of public administration theory.

As a final move, now being in control of the multitude of local tasks, the central government bailed out municipal local government sector right after being able to fully pay back IMF loans and thus being free from external budgetary scrutiny.

The stages of bailing out local government sector were the following:

- first: all county local governments were bailed out by HUF 190 billion,
- second, small municipalities having permanent population under 5000 were bailed out for HUF 74 billion,
- thirdly, all other municipalities were bailed out by 50-70% worth HUF 514.9 billion.

In retrospect, the entire wave of centralizing local tasks to central public administration organs can be seen as the aftermath of the 2008 crisis whereas the government wanted to clean up financial trouble but in a way to ensure that a similar chain reaction of accumulating indebtedness would not repeat itself.

Since local identity is usually considerably strong in the Hungarian society, these factors should not be excluded from considering the next steps of the reform. As Hajnal and Csengődi formulate the local element of the reform: "Local self-governments' scope of duties and competencies (many important functions in the field of operating secondary education and health-care facilities) were dramatically reduced by transferring them to the newly created District Government Offices (strictly and hierarchically subordinate to County Government Offices). Later on, additional administrative tasks and the related bureaucratic capacity of local government offices were transferred to the District Government Offices, too. Elected and decentralized county-level self-governments, as a result, lost most of their previous – and already quite modest – functions." (Hajnal and Csengődi, p. 49. 2014) Hajnal and Csengődi argue that the centralization process is politicization. I argue however, that politicization and higher central control was a primary tool for controlling the crisis (accordingly: Camillus and Deepak, 1991).

Transferring local tasks to local offices of central government institutions can be observed through the divergence of central and local government budgets' shares of the GDP as follows. The following diagram shows that in fiscal terms the centralization really took place but its value was relatively modest: from 12.8% of GDP in 2010 to 7.6% of the GDP in 2013 that is a 5.2% correction altogether.

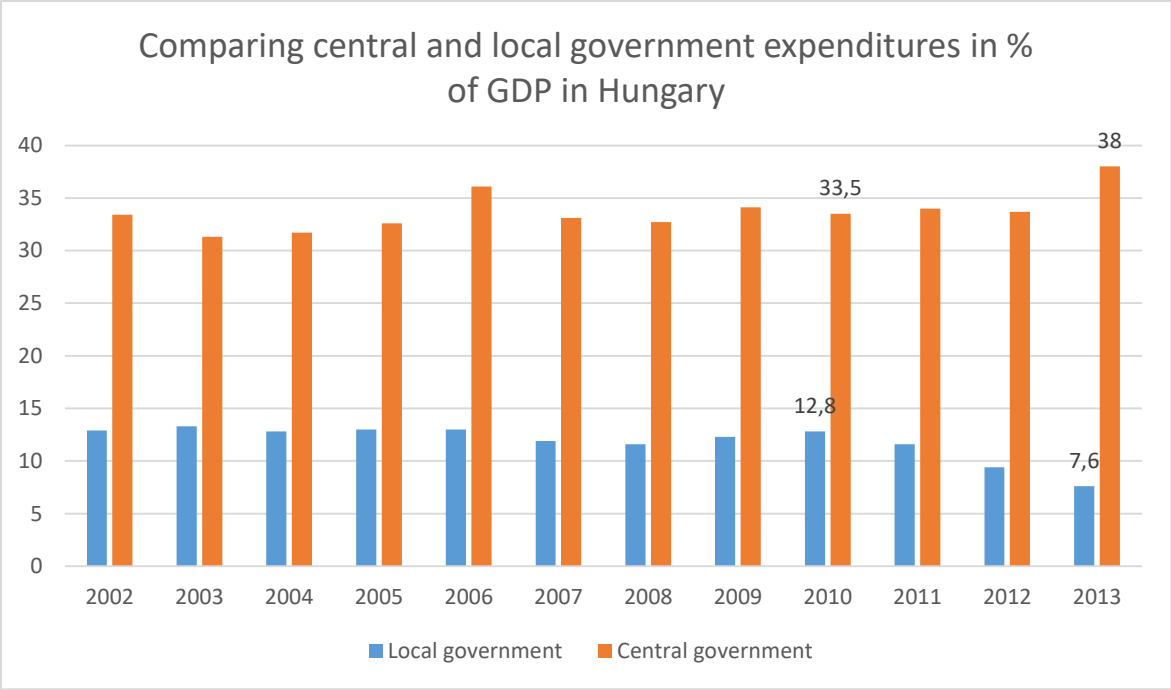

Diagram No. 4. Comparing central and local government expenditures in percentage of GDP in Hungary. Source: EUROSTAT[13]

Having a look at Diagram No. 4., it might be surprising at first sight that after 2008 – when the central budget became practically insolvent and an IMF loan agreement had to be signed in a great haste –, the relative proportion of local budget expenditures could still slightly increase until 2010. This shows that the central fiscal administration had little influence on local budgets to contract expenditures. In the fiscal management point of view this is a mayor systemic uncertainty that was forecasted both by IMF and OECD analysts. It is also telling to see in Diagram No. 4. how central and local expenditures diverge from 2011 onwards. In 2013, the Hungarian central budget paid back the final installment to the IMF,[14] this was the same year when from 1st of January, former local government delegated competencies and the connected finances were relocated.

A more detailed picture appears when the internal composition of local finances is presented.

[13] http://epp.eurostat.ec.europa.eu/tgm/refreshTableAction.do?tab=table&plugin=1&pcode=tec00023&language=en retrived: 12. 10. 2018.

[14] http://www.imf.org/external/np/fin/tad/extrans1.aspx?memberKey1=415&endDate=2014-08-31 retrived: 12. 10. 2018.

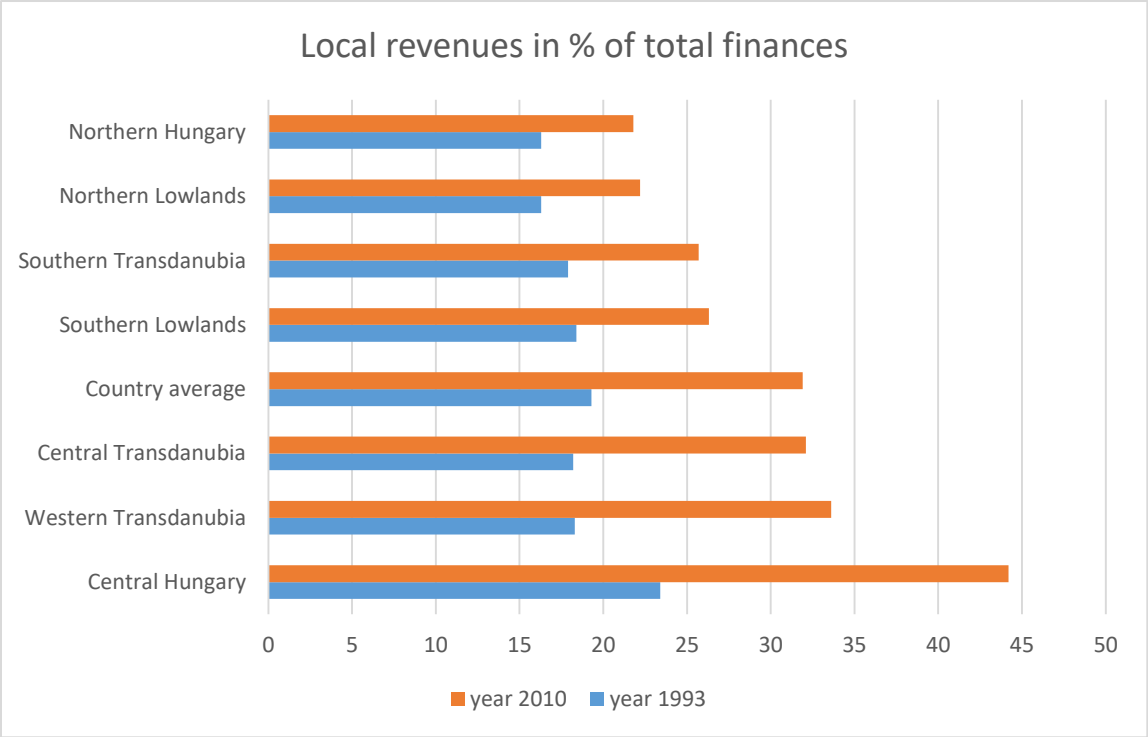

Diagram No. 5. Local revenues in % of total finances. (Source: Horváth et al. 2014. p. 137)

Diagram No. 5. shows the relative position of local revenues (mostly: local taxes) compared to locally spent central budget transfers in geographical breakdown in years 1993 and 2010. It is to be seen that the level of inequality increased between local government abilities to compensate for the withdrawal of central funding. In 1993 the proportion of local taxes varied between 16.3% (Northern Hungary) and 23.4% (Budapest and Pest County) while in 2010 these figures increased to 21.8% and 44.2%. Territorial policy tended to agree with IMF recommendations that transfers to local governments should be decreased but this lead to an increased geographical inequality that was hardly compensated by the resource distribution policy of EU cohesion funds. It can be concluded that centralization affecting local government competencies and finances appears to be a logical organizational response to an existing fiscal challenge. The long-term effects however, cannot be projected yet but the possibility opened up for the central budget to increase its territorial development policies in underdeveloped areas.

7. Closing remarks

Hungary recently became repeatedly an interesting country for academic research of political science and public administration theory. According to my observation this recent intensified

academic interest is inflicted by the developments in the political realm that do not wholly fit the narrative of decentralization being per se part of democratization that would be by definition an ever-widening flow of continuum. As such, recently Hungary has been connected to the "backslide of democracy" not only in the general media but also in academic literature (Sedelmeyer 2014, Ágh, 2013, Hajnal and Csengődi, 2014).

The re-centralization of municipal competencies appears to be in line with the OECD findings of 2008 and it also has an impact on state financing. The sharp increase of municipal indebtedness could be halted and a new, transparent system is about to be elaborated regarding 75% of the local governments' responsibilities. Internal transparency and closer control might be more acceptable for state financers than a complicated patchwork of local and territorial governments together with the EU-inspired 3-tier regional system. Previously the central fiscal administration had no influence on financial decisions of local governments even if their financial decisions threatened the interest of stabile state financing on the long run. It is to be admitted that centralization has a certain cost though as local control on local issues certainly weakened even if the delegated tasks used to be allocated to the local level upon decisions not being made by local assemblies. The first local elections after the centralization were held October 12th, 2014, the effect of centralization could be measured on the decrease of the activity of local politics. While on previous local elections the gross number of local candidates for assembly seats and mayor positions had been around 100.000 nationwide, the figure in 2014 was 58.000.[15] A similar decrease characterized mayor positions: it appears that there were no candidates in around 400 local governments – mostly small villages.[16] One might agree that this is a harm to local democracy but it can also be argued that local rent-seeking possibilities were also decreased and rent-seeking cannot be labelled as a legitimate attribute of local democracy.

Jenei views the re-centralization process as a development path whereas stabilization and steady development characterized the path until 2002. Afterwards, the development path turned towards marketization and later to state minimalization that lasted until 2009. From 2010 onwards, the other extreme of the pendulum effect can be registered in order to undo what minimalization measures distorted. (Jenei, 2009) In the meantime however, the financial crisis had to be handled somehow while certain birth-defects of the administrative system had

[15] http://www.inforadio.hu/hir/belfold/hir-665771 retrived 17.10.2018.
[16] http://www.magyarpolgarmester.hu/?site=104&c=3890&menu=c02 retrived: 17. 10. 2018.

to be corrected that came to the surface in the meantime. Currently, one cannot speculate on how long the newly centralized system will work. What can be concluded though is that on the short run it appears to work because it contributed to eliminate local fiscal uncertainties.

Excessive centralization has certain risks as well: there are already tangible examples for such risks. It is common in these failure-cases that they show how important the "conflict-container" nature of decentralized local entities used to be. The news on such project failures would normally be only isolated, local news with not much public hype around them. The centralized structure however, automatically increases the magnitude of project failures to policy failures while such failures appear in the realm of high profile political communication as well. There is an example that has massive political impact already: Primary and secondary schools use the same software for their internal educational administrative operations. The software ought to have been purchased by a single centralized institution through public procurement proceedings. The procurement process could not be completed in time because of legal remedy procedures at the Public Procurement Authority. Therefore all schools and secondary schools (teachers and parents adding up to more that 6% of the politically active population, right before the local elections) had to face serious challenges in their everyday operations.[17] As a consequence: a simple project failure immediately became a policy failure with a massive political impact.

Leaving political argumentation to political scientists, it is to be stated that Hungarian administrative culture might react to centralization as returning to the normal state of public administration whereas civil service has to replicate in practice whatever the political authority proclaimed in theory. This might add up to a rigid, non-responsive combination of monocentric politics and highly hierarchic central administration. This should be avoided – not necessarily through "re-decentralization" on the short run but by increasing internal and external transparency, increased citizen participation in central administration processes and by nurturing internal administrative innovations. Transparency might serve as a tool to make centralized institutions more flexible and accountable. Without sufficient transparency on administrative issues and projects, citizen claims tend to instinctively target the central government which would normally be interested in increasing the level of administrative transparency in order to redirect citizens' claims to the lower echelons of the administration – where they belong to.

[17] For further details see: http://www.napigazdasag.hu/cikk/22338/ retrived: 12.10.2018

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