

Centralisation in public services in Hungary from a consumer perspective.¹

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Abstract

The strengthening of local municipalities and the almost continuous evolution of their role reflects the steady downsizing of public services provided by the state and the extension of market circumstances. Until the economic crisis in 2008, the importance of state redistribution increased in almost each of the developed countries, more and more nation state functions were centralised under the authority of international organisations, and the “curtailment” of national governments’ authority occurred in tandem with the strengthening of the local state, i.e. municipalities.

The study exploring the issue of centralisation and decentralisation does not seek to unearth the relationship between the two concepts, but to examine from the point of view of consumer satisfaction how such a hastily implemented reform is able to respond to consumer demands.

It also examines how those concerned by the financial and political changes, i.e. the population perceived this most important structural transformation of the period since the transition in 1989. Can it be verified from the consumers’ point of view that the transformation of the local municipal system improves the quality of service provision?

Keywords: Local Government, centralization, decentralization, public service

Introduction

Despite significant changes in the Hungarian system of public law (whose order of magnitude can be compared to the regime change) post-2010, the fundamental modification of the local government system and the spatial structure of the state have not attracted much professional debate or social or municipal opposition. The study outlines the main frameworks of this transformation as well as its implications on the delivery of public services. The study does not primarily seek to assess how centralisation compares to the previous allegedly more decentralised system of local government, but how the centralised decision-making system has modified the tasks of local governments and how local residents perceive these changes.³

Methodology of the research

The applied methodology for examining the above issues rests on two pillars. One implies the collection of secondary information (desk-based research), i.e. the processing, systematization and analysis of existing data and information. For the purposes of the research, a population survey was ordered by the National University of Public Service.⁴ The survey was based on a sample of 1,500 inhabitants that was representative in terms of settlement size, level of education, gender and age group⁵ (Kákai, 2019). The study investigated public perceptions of the availability of local public services, the subjective expectations associated with the objective conditions characterising the public service system. Its aim was to unearth individual perceptions of the centralisation of government in public services, i.e. the importance that individuals attach to whether a given service is provided by the state, local government, non-profit or for-profit organisations and whether they notice the difference between the quality of public services and the identity of the service provider.

In the sampling for the purposes of the questionnaire, the main priority was to ensure that the surveyed settlements are representative of the full spectrum of Hungarian settlements. The analysis was primarily focused on public services that were represented in the case of the analyzed settlements.

Relations between financial and municipal (public) tasks

The Act on local governments passed in 2011⁶ effected considerable changes in local public service structures and municipal responsibilities. After the decentralisation experiment, the new central approach showed token strong centralisation in the spirit of a neo-Weberian⁷ philosophy.⁸ The process started with the appointment of government commissioners at county level and was later completed with the creation of the new constitution, the new act on local governments, the re-tailoring of the central and local governments' task system and the reform of the finance system. The transformation of the municipal system can be taken as a local public task centralisation process implemented within a decentralised structure. The new regulatory system bringing about a strong centralisation of public service provision was closely connected to the financial consolidation of local authorities.⁹

Post-2010, one of the elements of the changes in local governments' subsidies received from public finances was the introduction of so-called earmarked financing. Accordingly, local governments received a part of central budgetary financing as a difference of average planned expenditure and expected revenue (Horváth et al. 2014a: 339). Although the shift to labelled financing was not 100%, the process implied a switch from the earlier normative financing system built mainly on unrestricted spending to a cost-oriented system of restricted spending.

In 2013, general support adjusted to the obligatory tasks of local governments was provided in the fields of municipal administration, settlement operations (street-lighting, public cemeteries, maintenance of public roads and green area management), specialist social care (institutional care) and public education (Tállai, 2014). In the case of social, children's welfare and cultural functions, task financing was not applied. From 2014 onwards, the system of task financing was extended to children's catering as well.

Owing to the changes in the legal regulations, larger settlements have greater authority.¹⁰ A new category of 'district town' was introduced; these settlements fulfil (mainly small regional public service) tasks for the whole district.

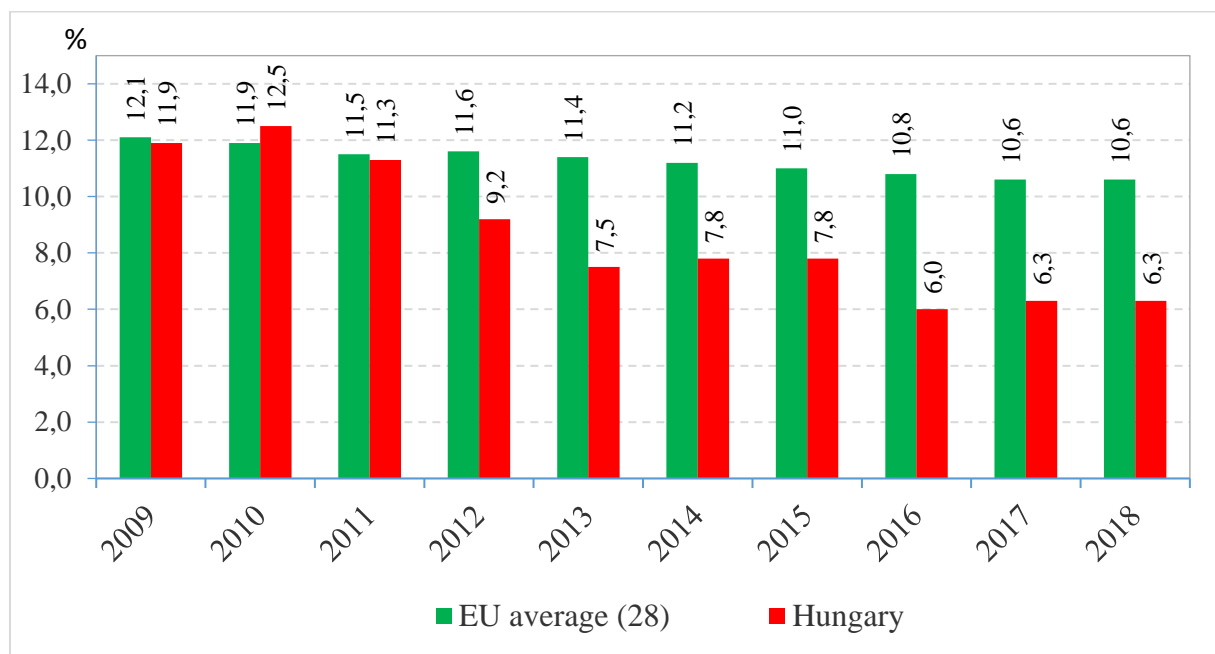
As indicated by the data collected and analysed by Edit Pfeil the circle of mandatory tasks of local governments in Hungary was spectacularly reduced after 2010 and especially after 2014 (Somlyódyné, 2019: 55-57), in connection with the transformation of large public utilities and infrastructures.¹¹ To sum up the changes, in the fields of energy, water and public sewer supply, waste and settlement management, the operation of public roads and local public transport, state contribution has become dominant. As a result of competence re-organisation, the range of tasks that local governments are obliged to fulfil has considerably narrowed. This phenomenon is clearly visible at both municipal county and settlement levels. County municipalities were deprived of all their public service functions (cultural centres, libraries, museums, archives, etc.), except for the task of regional development, which was strengthened. However, as underlined by the analysis of Gálosi-Kovács and Haffner (2017) county governments have only a formal position in the formulation of regional development plans, disposing primarily of administrative functions.¹²

Apart from nursery school education, the basic tasks of public education were removed from the set of local public affairs. In the field of cultural services, the maintenance of museums was moved from county responsibility to the settlements. Similar processes were implemented in the case of public libraries. Essential changes were

implemented in terms of social and healthcare institutions of human public services. Apart from basic social and healthcare services, all the tasks were moved under state responsibility. Previously, secondary grammar and technical schools, hostels, museums, libraries, archives, institutions providing special healthcare and elderly care homes were transferred to central authority and the belonging properties were nationalised.

The reorganisation of governmental tasks has entailed a drastic modification of local government expenditure (Figure 1.). In macroeconomic terms, from a public finance point of view, the change effected by the government measures altered the role of local governments in the system of public finances, modifying ¹³ (in Hungary's case, reducing) the extent of decentralisation and narrowing the circle of mandatory tasks of local governments (Sivák, 2014: 305). In 2012, the ratio of local government expenditure to GDP was only 9.2 percent, compared to 12.5 percent in 2010 (Horváth et al. 2014b: 125). This trend has been ongoing. By 2018, the share of local government expenditure was a mere 6.3 percent.

Figure 1. Evolution of local government expenditure as a percentage of GDP between 2009 and 2018



Source: Calculated on the basis on Eurostat data (2018) (Bordás et al., 2020: 94)

As a result of the changes, the bases of the general power grounding the responsibility and authority of the municipalities weakened and the principle of decentralisation and subsidiarity was strongly restricted as compared to the years before 2010. The centralisation process triggered profound changes in the provision of public services for the local population – they affected a substantial share of local public affairs.

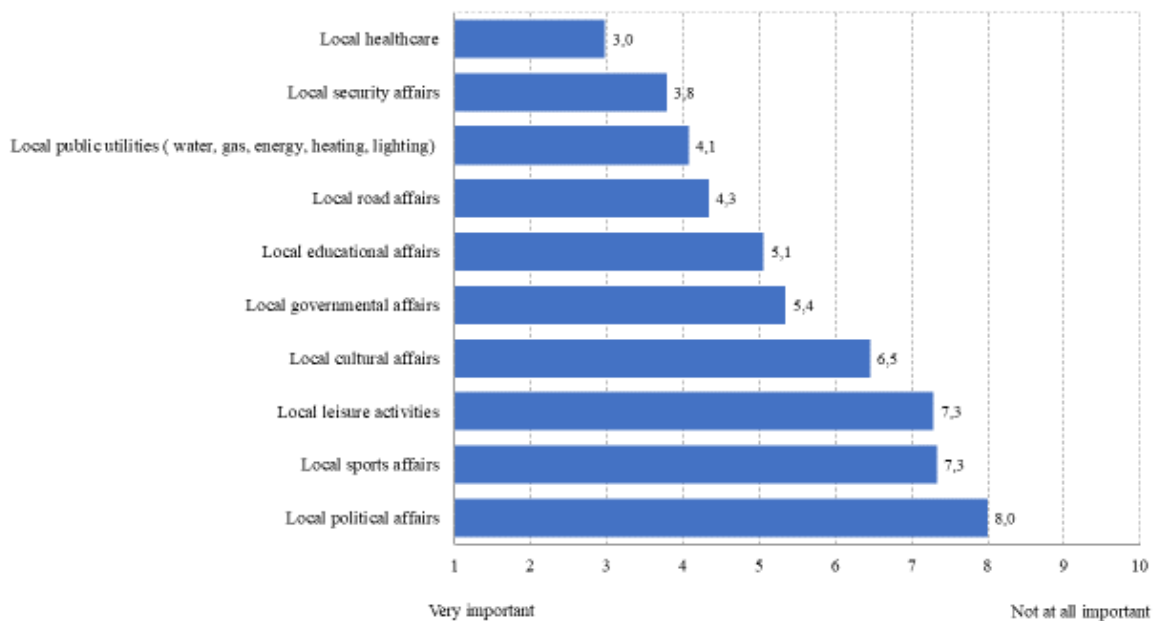
The population's attitude to changes

The Act on local governments passed in 2011 transformed the local public service structures and municipal tasks considerably. The question is how the population has responded to all this. What characterises their perceptions of the municipal system? In their everyday lives, do they notice the difference between local public services, their quality and the identity of the service provider? This is especially interesting in light of the fact that according to the value surveys made from the transitional era until recently, the Hungarian population tends to underestimate the costs (tax expenditure) of state intervention and expects/anticipates/demands state intervention and

redistribution also in terms of issues where (Csontos et al. 1996), in general, it would be more effective, cheaper and perhaps fairer to involve private or business resources (Tóth, 2010).

In ranking public services in terms of their importance, we have found that the main priorities of the population are issues related to local health services, local public security, and the development of local utilities and local roads (Figure 2.). Issues related to education and municipal affairs are of secondary importance. Cultural affairs, leisure activities and sports are of low importance. Issues related to local politics are at the bottom of the list.

Figure 2. How would you rank local employment issues?



Source: Based on KÖFOP-2.12.-VEKOP-15-2016-00001 calculation by Kakai, 2019.

The ranking order basically corresponds to a hierarchy of needs. Public services considered to be the most important by people are those demanded by the population on a daily basis, fundamentally affecting their everyday lives and routines. Their significance considerably outweighs that of public services related to education, culture and social life.

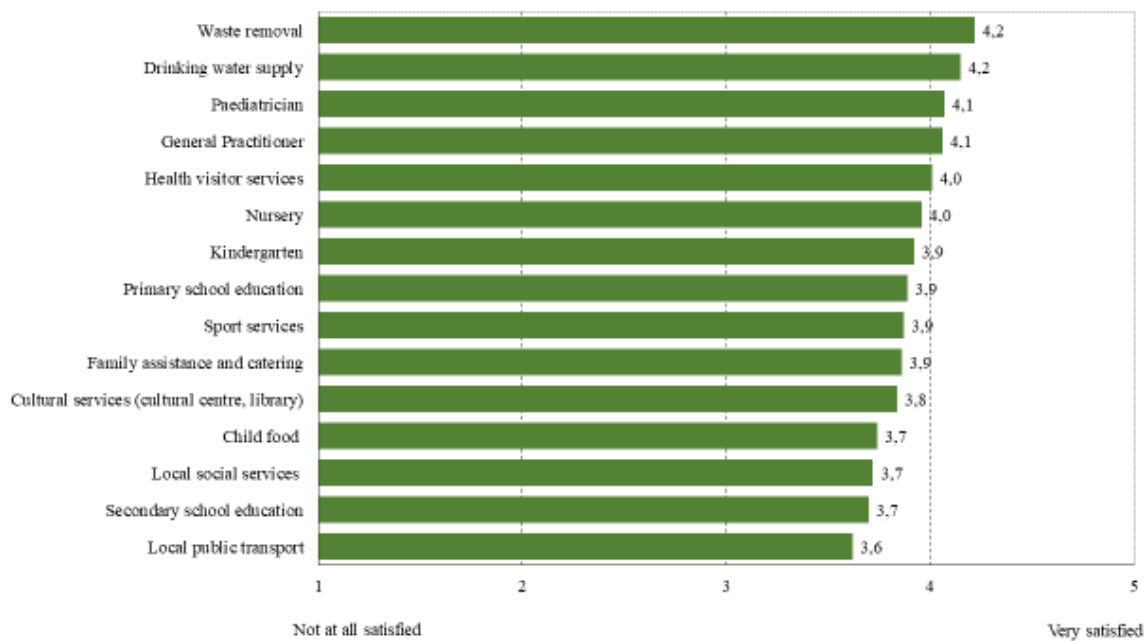
This is consistent with Abraham Maslow’s psychological theory of the hierarchy of needs (Roóz and Heidrich, 2013), according to which human needs follow a hierarchical structure. Physiological or basic needs, i.e. needs related to subsistence constitute the bottom level of the Maslowian “pyramid of needs”. At the second tier of the pyramid are safety needs: i.e. the preservation and safeguarding of acquired assets. These are followed by social needs stemming from our nature as social beings. Social needs refer to needs for love and belonging. The satisfaction of these needs relies on maintaining kinship and social ties corresponding to people’s interests and mentalities. The top of the pyramid comprises the need for self-actualization. Certain individuals have a desire to make the most of their abilities and talents.

The fact that local political issues occupy the bottom tier of the list of priorities clearly indicates that in contemporary Hungary only a small segment of citizens regard active engagement with public affairs as a vital and essential psychological need. A retreat from politics and public life is also detectable at the local level, although in most settlements this area no longer, or does not necessarily constitute the scene of party politics. In small settlements, the world of local governments is traditionally (or should have been) overtaken by independent

politicians or civilians. However, national party politics overwhelmingly present in medium-sized and large settlements often penetrates this level as well. Hence, a disillusionment with national party politics (in the Anglo-Saxon terminology, the world of politics) also leads to a withdrawal from local politics.

The answers reveal an interesting contradiction relating to the assessment of the quality of services. According to the data, the classification of the quality of public services ranges between good and mediocre in almost all areas. Whether it is an accurate reflection of responders' opinions or just an attempt to resolve a cognitive dissonance is hard to assess (Figure 3.).

Figure 3. How do you rate the quality of the following services in your area of residence?

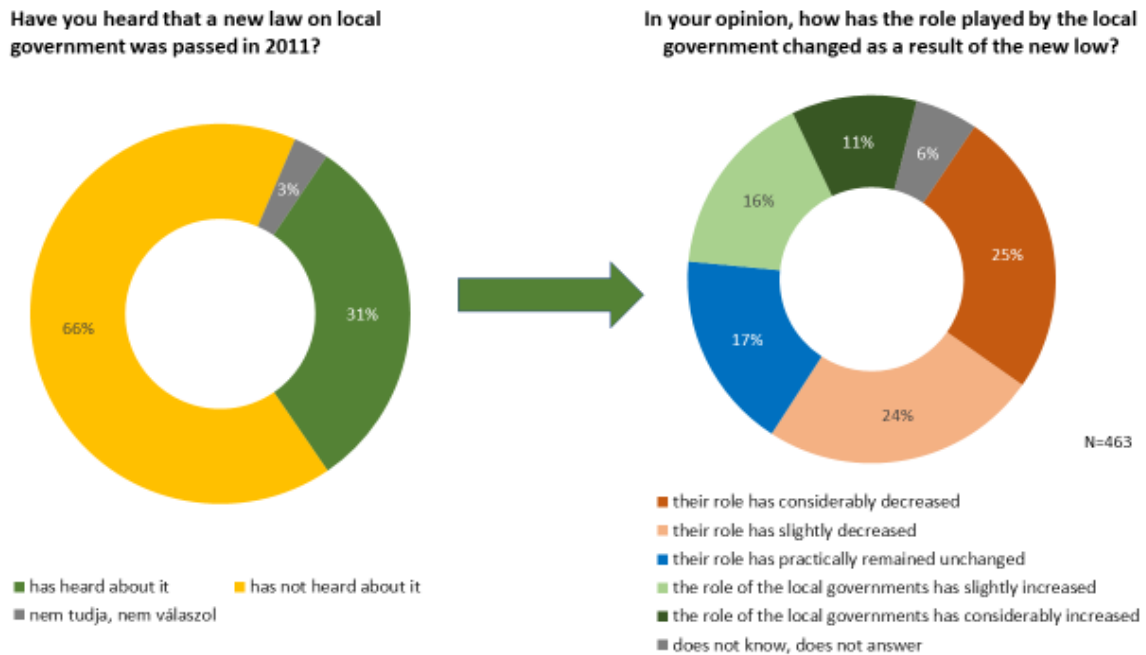


Source: Based on KÖFOP-2.12.-VEKOP-15-2016-00001 calculation by Kakai, 2019.

Are people really satisfied with general practitioner care or do they merely contend that it is of the highest attainable quality locally? While our research data does not corroborate this fact, it is quite telling that respondents rate the quality of secondary education as mediocre, an area that shows an above average service mobility.

Political processes and local services reflect the fact that only a third of the participants in our survey confirmed that they were familiar with the Act on local governments adopted in 2011. Those with no prior knowledge of it, on the other hand, were also aware that the law had curtailed the powers of local governments (Figure 4.).

Figure 4. Have you heard that new law on local government was passed in 2011? In your opinion, how has the government's role changed as a result of the new law?



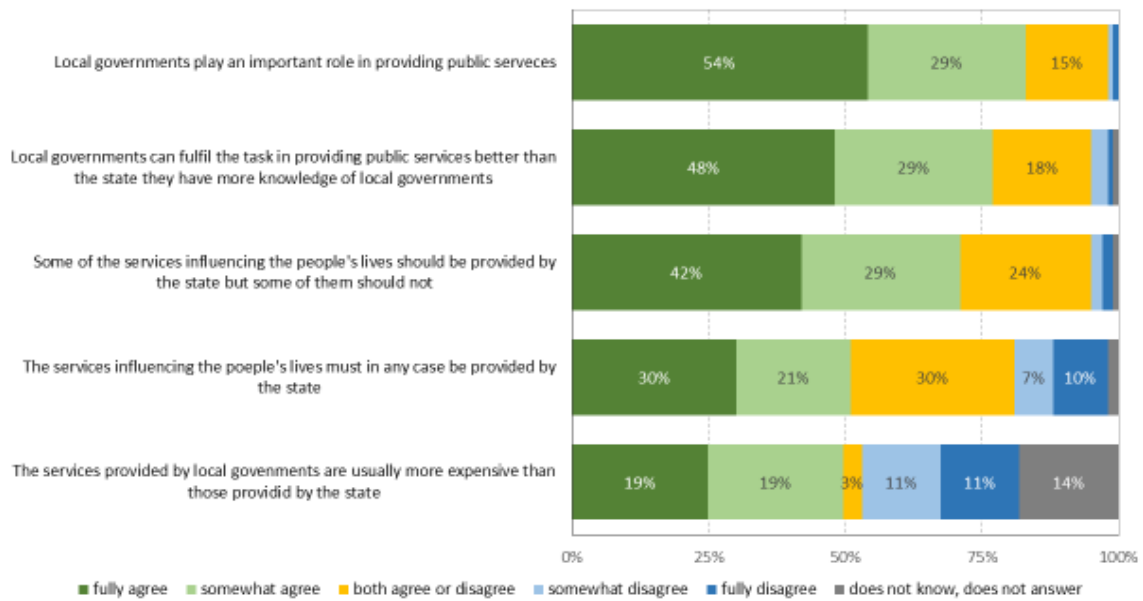
Source: Based on KÖFOP-2.12.-VEKOP-15-2016-00001 calculation by Kákai, 2019.

The evaluation of the effects of the modification of the law points to an interesting ambiguity in the responses. When requested to assess the qualitative change of the delivery of local services within their respective settlements, responders' opinions suggested a non-variance in the respective services. This practically indicates that the modification of rules fundamentally transforming the delivery of local public services has not impacted the nature of services accessible for citizens or their perceived quality in the long term.

However, a shortage of information does not necessarily imply that on the basis of their everyday experiences and life situations citizens are unable to develop their own views and ideas on the limitations of the role of local governments and the state in public service delivery.

When asked about what role local governments play in public services or whether tasks can be fulfilled better by the state or local government, in most cases, they opt for the latter (see Figure 5). According to most respondents, municipalities play an important role in the delivery of public services. They are more competent in fulfilling these tasks due to their awareness of local needs.

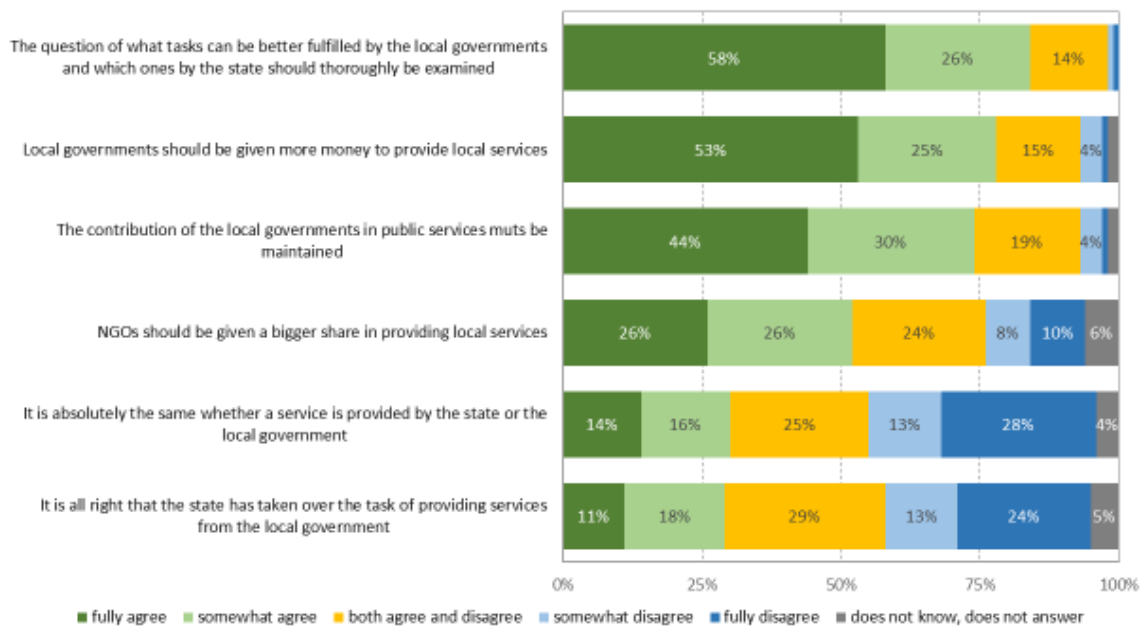
Figure 5. Local government or state?¹⁴



Source: Based on KÖFOP-2.12.-VEKOP-15-2016-00001 calculation by Kákai, 2019.

Nevertheless, the respondents acknowledge that some tasks must be performed by the state and that responsibilities must be carefully distributed between the two agents (see Figure 6). Also, they have definite negative opinions about the over-extension of the state and the centralisation of municipal tasks.

Figure 6. Local government or state?¹⁵

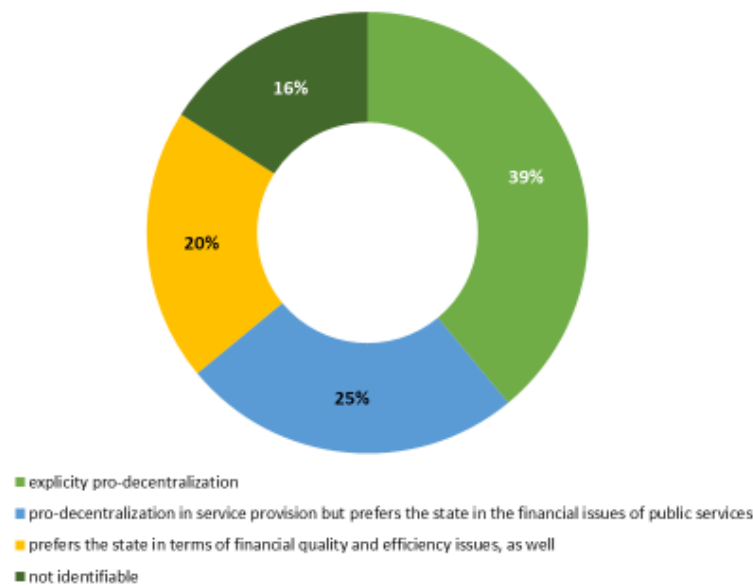


Source: Based on KÖFOP-2.12.-VEKOP-15-2016-00001 calculation by Kákai, 2019.

In case we take the opinions worded in the questions as the statements of a Likert-scale and simply summarize them,¹⁶ we will see that centralisation in the field of public services (i.e. clear and strong state presence in every area) has a very small supporter base (Kákai, 2020: 81).

Regarding quality and efficiency aspects, those explicitly opting for decentralisation show a clear preference for local municipalities in terms of public service provision. These make up 39 percent of the people questioned (see Figure 7).

Figure 7. Municipality or state? – groups created by means of factor and cluster analysis¹⁷



Source: Based on KÖFOP-2.12.-VEKOP-15-2016-00001 calculation by Kákai, 2019.

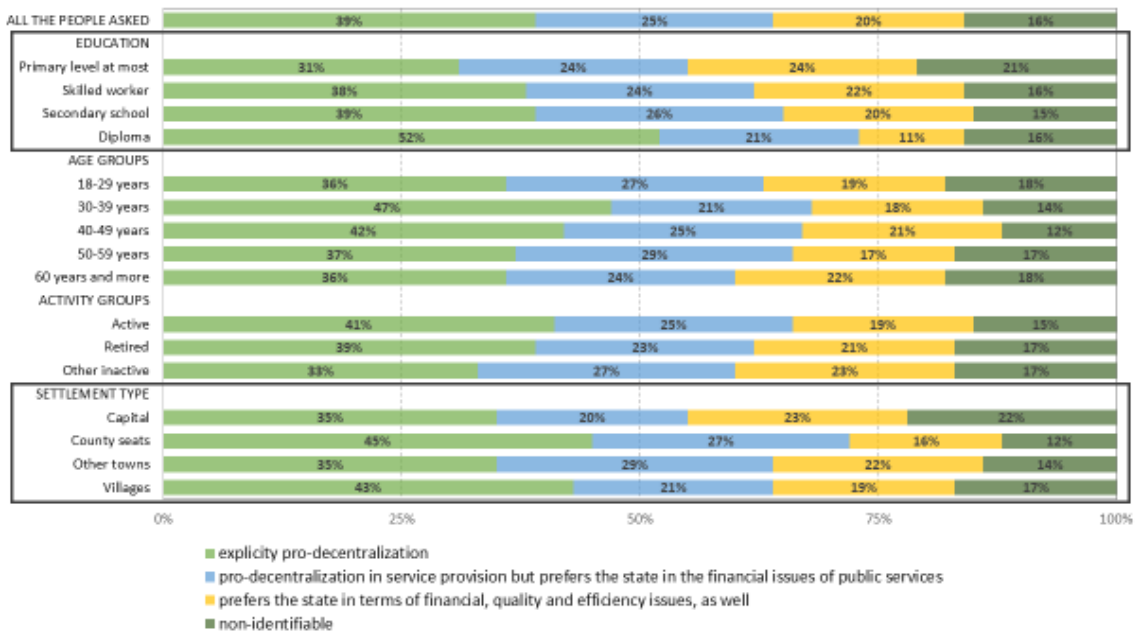
The method of analysis divided the originally very large group of hesitant persons into several parts. One of these groups was all for decentralisation in service provision but preferred the state in terms of the financial issues of public services. This constituted 25 percent of the questioners.

The other group was a pro-centralisation group that trusted the state more than any other entity in terms of the financial issues of public services and that, albeit not very strongly, also favoured the state in terms of quality and efficiency aspects. This type of thinking characterised 20 percent of those interviewed.

The answers of 16 percent were incomplete and thus impossible to categorise explicitly or did not match clearly the opinion structures of any of the groups.

Behind these opinion groups, we can find the same socio-demographic patterns as we did with the summary scale analysis (see Figure 8). Within the circle of people with a diploma, the majority (52 percent) is explicitly for decentralisation. The rate of this opinion group decreases in parallel with the level of education but does not turn into a relative minority at any of the levels, so it is clear that no major preference for centralisation is present in any of the groups. A similar pattern shows in terms of the settlement type: in the main county cities and villages, the relative dominance of the preference for decentralisation is rather clear (45-43 percent) but this opinion group also bears the greatest share in the capital and the towns as well (Kákai, 2020: 82).

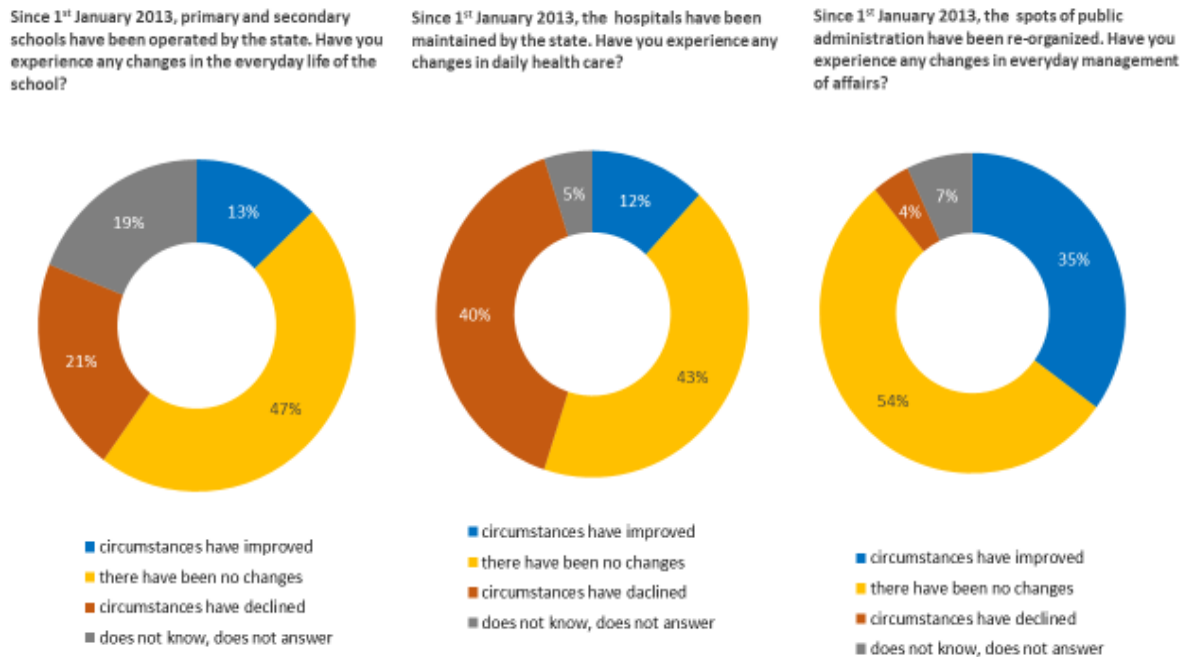
Figure 8. Municipality or state? – groups created by means of factor and cluster analysis



Source: Based on KÖFOP-2.12.-VEKOP-15-2016-00001 calculation by Kákai, 2019.

One of the reasons for rejecting strong state contribution may be bad experiences. Since the act on local government was passed in 2011 and the state withdrew tasks from the local governments, both education and healthcare have been seen in a negative light (see Figure 9). 21 percent think that the circumstances have declined since the organisation of primary and secondary level education were taken over by the state and the majority thinks conditions have remained the same (which, with regard to the long-lasting negative judgement of education, is also problematic). Only 13 percent think there has been any improvement. The changes having taken place in the operation of hospitals have been judged even worse. Here, 40 percent think that conditions have definitely declined since 2011. Forty three percent think that there have been no changes, which is also problematic regarding the fact that healthcare had already long been judged as rather poor.

Figure 9. Since 1 January, 2013, ...have been operated by the state. Have you experienced any changes in everyday life?



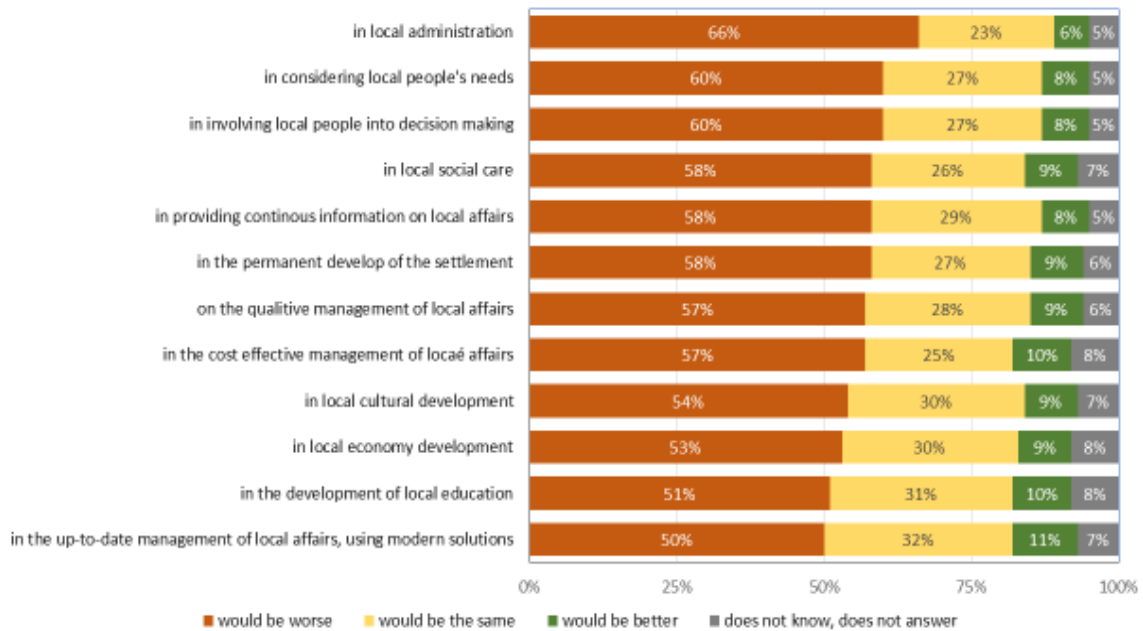
Source: Based on KÖFOP-2.12.-VEKOP-15-2016-00001 calculation by Kákai, 2019

The only field where the balance of changes is somewhat positive is public administration. Here, 35 percent see improvements but the absolute majority of respondents (54 percent) still see unchanged conditions in this field (see Figure 9). The negative experiences from the past give a clear explanation of why people reject further extensions of the state withdrawing functions from local governments.

When we asked people how the quality of the given service would change if local governments had no authority in public services, we were met overwhelmingly with negative opinions (see Figure 10).

Those envisioning decline had absolute majority in each field. Only an insignificant portion thought improvement was possible.

Figure 10. The transformation of the role of local governments is a popular topic these days. In your opinion, if local governments did not play any role in the fields listed below, would their quality be better, worse or the same as it is today?



Source: Based on KÖFOP-2.12.-VEKOP-15-2016-00001 calculation by Kákai, 2019

Further centralisation is definitely seen in a bad light; the majority of the respondents thought that if the state took over the management of a certain field, the quality of related services would decline.

By means of factor analysis, we also tried to identify some latent structure in the attitudes concerning the twelve opinions in terms of this question.¹⁸ The cluster analysis confirmed that those who are pessimistic about such changes (50% of respondents) are equally pessimistic in all areas. Those who do not expect change (27%) hold the same view in all areas. Those who expect an improvement (9%) expect this in all areas.

The data indicates a disconnect in people's perception of a concrete locally delivered service and their representation of the given service in general. They are more satisfied with local conditions that are familiar to them, and more satisfied than with general conditions. There is an evident dichotomy: "our general practitioner is fine, but there has been a general decline in the quality of GP care", "our school has problems, but is basically alright, however, the state of primary education is deplorable".

Conclusion

Centralisation tendency was a tried and tested practice of managing the economic crisis of 2008 across Europe.¹⁹ In several countries, considerable restrictions and the reorganisation of competences took place. In this respect, Hungary does not differ from other European countries. Thus, concerning the issue of centralisation vs. decentralisation, no clear standpoint can be taken. The successfulness of one or another governmental structure depends on several factors, ranging from the economic, social, political and cultural context of a given country to the interpretation of the two governmental structures in that country (Litvack et al., 1998). However, it is worth noting that the deep and very rapid transformation of the municipal system was not only a manifestation of the constraints imposed by the economic crisis in Hungary, but a process carefully prepared by the government in line with international regulations.

According to the surveys, citizens do not think that the state can manage the tasks and services withdrawn from the local level any better than municipalities. The centralised organisation of the delivery of public service tasks is not necessarily inefficient or less efficient. In the meantime, it is far from evident that the transformation of the local government system has improved the quality of service delivery. However, regarding the centralisation shift within the local government system and its underlying method, the prevalence of community consumer interests appears to have deteriorated instead of its anticipated improvement.

So far, we have been unable to justify the presumption that the centralisation of the financing and management of a wide range of public services has resulted in more effective and higher quality services (Kákai and Vető, 2019). Our results do not verify the hypothesis according to which transformation brings about a higher standard of services or higher level of satisfaction (on the contrary, the data indicate a general decline). At the same time, we cannot conclude that the centralizer itself can be declared “impetuous” or, in terms of its objectives, “irrational” or “mistaken” (Bordás et al. 2020: 93). We can only state that during centralisation, the prevalence of community consumer aspects was not at all strengthened, instead, the tendency was stagnation or explicit decline.

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Notes

¹ Research for this paper was supported by the following grant: EFOP-3.6.3-VEKOP-16-2017-00007 Young researchers from talented students – Fostering scientific careers in higher education.

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³ The survey raised questions about functions ensured by local governments either before or after the reform.

⁴ The research was implemented within the framework of the flagship project no. KÖFOP-2.12.-VEKOP-15-2016-00001, entitled “*Public service development basing good governance*”.

⁵ The research was implemented between 18th July 2018 and 18th August 2018.

⁶ Act. No. CLXXXIX. on the local governments of Hungary (Mötv.).

⁷ The core of this and its difference from New Public Management (NPM) is that while NPM strives to make the state switch over to market operation principles, the neo-Weberian model focuses on reconsidering the role of the state in terms of strengthening it.

⁸ In this spirit, the requirement of qualitative services and their professional provision, the extension of citizen and public administration consultations and the dissemination of result-based attitudes were given a stronger emphasis than in the previous governmental periods.

⁹ The crisis of the US mortgage market erupting in 2009 played a significant role in this, leading to a weakening of the Forint exchange rate, which was further exacerbated by the post-2010 economic policy, considerably raising the amount of credit due to the large open foreign currency position. As a result, the government had to take action. It assembled a debt consolidation package for debt management. In its framework, a total of 277 municipalities with more than 5,000 inhabitants had their debts of cca. HUF 610 billion assumed by the state in June 2013 (Vasvári, 2020). In the two categories of municipalities (under 5,000 inhabitants and above), the state took over a total of HUF 694.2 billion debts out of a total volume of credits of HUF 1 182.46 billion at the end of 2012. This led to a significant improvement of the budgetary position of local governments post-2011.

http://hazaeshaladas.blog.hu/2012/11/05/onkormanyzati_adossagatvallalas_tenyleg_nullszaldo (accessed June 10, 2015)

¹⁰ The model calculations made by Ilona Pálné Kovács et al. (2014) proved “the bigger the settlement, the more services provided” connection that shows bigger leaps in the population categories of 2,000 and 10,000 people; this picture is in line with the rules of the obligatory responsibilities allotted to local governments (Mezei, 2014). <http://docplayer.hu/5950391-Zarotanutmany-a-hazai-onkormanyzatok-finanszirozasi-helyzeterol.html> [accessed July 2, 2018].

¹¹ Since the year 2010, in the course of the fundamental transformation of the decentralised system, the amount of tasks performed at the locality decreased by 29%.

¹² The ambiguity of the situation is illustrated by the legislation entering into force during the COVID-19 epidemic, according to which county municipalities were granted new powers only in the field of development and planning, while municipalities remained charged with the provision of municipal public services despite being deprived of one of their major sources of revenue (business tax) (Balázs - Hoffman, 2020: 14).

¹³ This indicates Hungary’s shift from its position of a highly decentralised country to one of the most centralised compared to other OECD countries (OECD, 2019).

¹⁴ The question was: Many people think that services that affect people's lives should be provided by the state, while others do not think that the state should provide such services. Please indicate your opinion about this issue. Indicate your answers as you would do in school, with a 5 meaning you fully agree and a 1 meaning you fully disagree.”

¹⁵ The question was: „I am going to read you some statements about the changing role of local authorities in public services. Please tell us your opinion about each of these. Indicate your answers as you would in school, with a 1 meaning you fully disagree and a 5 meaning you fully agree.”

¹⁶ This analysis method treats the eleven statements as having equal importance, showing the primary atmosphere in connection with the examined topic. However, because of the high number of hesitant persons, it is worth investigating the finer opinion structures and interconnections hiding in the background. By means of a factor analysis, we have discovered two, clearly separated opinion dimensions behind the eleven attitude questions. The first one includes the statements examined from a quality and efficiency perspective whether it is the local government or the state that should provide local services. The second group includes the questions concerning task division from the financial and cost efficiency aspects. With the help of the two factors created this way, we were able to perform a cluster analysis and examine the patterns appearing along these opinion dimensions in Hungarian society, along with the type and size of the groups characterised by these patterns.

¹⁷ The questions were based on a clustered analysis of the 12 statements in Figures 5 and 6.

¹⁸ This, however, was not possible since all twelve aspects appeared in the analysis as belonging to the same dimension.

¹⁹ This implies that in over half of the OECD countries, the decline in local revenues exceeded the decline in central government revenues for over at least one year between 2008 and 2010 (this phenomenon is visible in Romania, Serbia, Bulgaria, but also in some large European countries (France, Spain, Poland). Only a few countries have witnessed a strengthening of the local level with supplementary resources (Czech Republic, Slovenia). As indicated by OECD data, local governments have not benefited from revenue sharing in any of the countries after 2008 (Halmosi, 2013: 297-298, and OECD, 2012).