András Vigvári

A possible scenario of modernising the Hungarian local government model

In Hungarian political and professional discourse – partly as an effect of the financial crisis – the issue of reform of the local government system has been put on agenda again. This welcome – though under-pressure – fact raises various presumptions and illusions at the same time. The most important of these probably is that the reform must significantly reduce the number of local governments, by which considerable savings can be attained and the sustainability of the whole state budget can be improved. In this article, an attempt shall be made to outline a possible solution, considering the weaknesses of the current local government system, the international challenges and the international tendencies of the operation of the subnational government level.

THE RESERVES OF THE "HUNGARIAN MODEL" HAVE BEEN EXHAUSTED

So as to avoid repeating the mistake made in 1990, i.e. that the establishment of the local government system was significantly influenced by political sentiments and passions, we should face the weaknesses of the current model. Within the framework of this article, there is neither a need[1], nor an opportunity to present the Hungarian model of the local government system or the evolution thereof. Let us instead focus on some issues that appear to be relevant for the further development of the system. The basic characteristics of the system are laid down in the local government act (LGA) made in 1990 as a fundamental act. There are other "plain" acts furthermore forming and deforming the operational environment of local authorities.

The first question is whether the fragmented nature of the system should be considered its most important characteristic, i.e. its major defect. Is it true that eliminating this would solve the problem? Let us see an international comparison! *Table 1* presents data on some EU countries characterising the extent of fragmentedness by the number of population per local government. It can be seen that, as regards fragmentedness, Hungary is not in a unique position. The data also indicate that there are no correlations between the average size, the number of population and the income centralisation of local governments. Furthermore, ‚we wish to mention, without going into detail, that there have been no actual local government models developed either in the international practice or the EU in particular. There is a particular aspect with a relatively uniform practice in formation, which is the basic budgeting rule referring to subnational governments, i.e. that the operating budget of

Table 1

THE NUMBER AND THE AVERAGE POPULATION OF LOCAL GOVERNMENTS, AND THEIR EXPENDITURE AS A PERCENTAGE OF GDP IN CERTAIN EUROPEAN COUNTRIES

Country	Population, million ppl	Number of local governments	Population per local government, thousand ppl	Government revenues as % of GDP
Czech Republic	10.3	6 237	1 500	11.3
France	58.9	36 559	1 600	10.9
Slovakia	54	2 871	1 700	6.3
Greece	10.5	5 922	1 800	3.3
Hungary	10.2	3 174	3 200	12.0
Luxemburg	0.4	118	3 400	5.1
Austria	8.1	2 353	3 400	8.0
Latvia	2.5	554	4 000	10.1
Estonia	1.4	247	4 200	8.5
Spain	39.4	8 082	4 800	6.0
Germany	82.0	16 121	5 000	7.4
Italy	57.4	8 104	7 000	14.4
Romania	22.5	2 862	7 700	8,5
Slovenia	2.0	192	8 800	8.8
Finland	5.2	455	11 200	19.4
Poland	38.7	2 489	15 000	13.0
Belgium	10.2	589	17 200	6.8
Denmark	5.3	275	19 100	32.3
Holland	15.7	572	27 000	15.4
Bulgaria	8.3	262	28 000	6.4
Sweden	8.9	286	30 900	25.3
Portugal	9.9	275	34 200	5.9
Ireland	3.7	84	41 667	72
Lithuania	3.7	56	58 800	8.2
Inited Kingdom	58.7	491	118 503	12.9

Source: Own compilation based on OECD- and Eurostat-data

these is not allowed to run into deficit; operational loans are not permitted as a main rule.

It is not because of the settlement-centric assignment of local government rights – due to the peculiarities of the settlement structure and thus, inevitably, due to its fragmented nature – that the Hungarian model is unsustainable but because the act on the basis of which the system was established, laden with serious political compromise, identified exercising local government rights with the possible framework of performing local public duties, despite experts' other intentions. The liberal illusions related to the New Public Management (NPM-) paradigm played a role in the above, as did the pressure to find ways to compensate the village population who had lost perspective and work opportunity due to agriculture losing ground. The practice of one village, one school; one institution, one budget organ could have been avoided by a more considerate and provident legislation and by corrections better planned and implemented later on. With reference to the birth of practice, it is important to know that the introduction of mandatory associations, by which the anomaly outlined could have been prevented, was blocked on two occasions by the liberal party that time still significant of the political change. In the case of systems more fragmented than or similar to the Hungarian model, it is these institutions that make the local government systems based on a fragmented settlement structure operable. It is important to know that until 2004 the performance of local duties within the framework of own institutions was fostered, at changing intensity, by the source regulation system.

It is a feature determining strongly the peculiarity of the model at the same time that it is not the maintenance of institutions that is prescribed under the LGA; local public services are meant to be guaranteed through a service organisational obligation. It depends on a local decision if the latter is assigned to budget organs, non-profit organs or local-government owned, private or possibly mixed ownership business organisations. Through the latter, principles of NPM revolutionary at the time even at an international level were incorporated into the regulations (Horváth, 2000; Horváth, 2005; Péteri – Horváth, 2001; Péteri, 2003). As a consequence of this opportunity – especially in the case of local governments of towns and cities – the *quasi-fiscal sector* has a significant role in the performance of local public duties. This means in turn that – lacking the necessary control – the political bodies in authorities fail to supervise a significant segment of the local government economy.

It must be noted that *the principle of service provision instead of the institution maintenance obligation* has been violated in practice. One reason for this was that the asset transfer principles and mechanisms applied when the system has got established were inconsiderate[2]. The asset transfers performed under the LGA assigned several assets necessary for the provision of local services to municipalities, which generated significant inflexibility and is an important factor in the survival of the practice of providing services via own institutions. The other reason can be described by an organisational sociological nature, namely, in the fragmented system, the day-by-day legitimacy of local bodies was guaranteed by the supervisable institutions. The presence of institution managers or employees in the bodies, in turn, became the ground of typical institution preservation and enlargement efforts.

The third peculiarity is that the central fiscal regulation system serving as the financial background of the services assigned as mandatory to local governments – which revived the "regulation illusion" of the indirect economic management system introduced in 1968 – proved a suitable means for the *de facto recentralisation* of the *de jure* decentralisation, the latter also served the decentralisation of a significant part of the conflicts involved in the economic transition. The major milestones in the change of the Hungarian model are presented in *Figure 1*.

The possible distortions of the model were coded at the birth of its conception. At the time of the political change, on the one hand, it could not be foreseen how far the state would continue to "retreat" from the service provision and, on the other hand, the legislation of that time followed the international practice of decentralising public sector reforms applied in NPM in the 1970–1980's. Pálné (Pálné, 2001, p. 75), following Sharpe, observed that during the first big wave of public sector reforms even in developed industrial countries, it was a widespread practice to ease the central budget pressures by decentralizing measures not supported by financial sources. After 2000, the Hungarian local government system borrowing a term introduced by *Attila Ágh* (Ágh, 2005, p. 15) – became a "conflict container". The extreme decentralisation of several services, including public education, was carried out because the governments in power could thereby *decentralise* the obviously arising conflicts (like the closing of schools).

Figure 1

THE HUNGARIAN MODEL OF FISCAL DECENTRALISATION AND ITS EVOLUTION (STYLISED "MAP")

	Mandat or y duties	System of state contributions	The framework of duty performance	An economies of scale framework for duty performance	Asset conditions	Capital market relations	Hardness of budget constraints	Investment support system
Birth 1988–1991	Not defined precisely, of a growing number	Normative, gross financing, with few legal titles of bound use	Fiscal and quasi fiscal. Budget organs were fragmented	Opportunity of association available; notarial districts formed from the beginnings	Asset transfers under the law and within the framework of separate transfer processes	Free choice of bank once a year, free borrowing	Rather soft; it was unclear whether the state would take responsibility for the obligations of the sector	Earmarked subsidies were bound to discretional decisions; target subsidies to tenders. Small "branch subsidies"
Changes 1995–1996	Not made more precise, their number grew	Switch to net financing, growth in number of legal titles		The 1997 Act on Association created more favourable legal conditions	Debate on the privatisation of public utility assets affecting local governments	Restrictions on borrowings through the amendment of Article 88 of LGA	The constraints were made tougher by the restrictions on borrowings of 1995 and the "local government debt act" of 1996	The unsustainability of the target subsidisation system became clear; rules made stricter. Small "branch subsidies"
The beginning of deformation at the turn of the millennia	Confused	Number of legal titles stabilised at 2.5 times the original number , the number of those with bound use grew. Due to allocation based on tax capacity , intrans parent system	The role of quasi fiscal frameworks increased		Strengthening deficit financing based on the sale of assets	"Free choice of bank" became more flexible	The role of Emergency Operating Grants grew, its conditions became discretional, separated funds were created at the minister in charge. Constraints softened	The number of subsidisation channels grew.
Gradual dissolution after 2002	Confused	The number of legal titles, including those of bound use, grew by one third	The role of quasi-fiscal frameworks grew, state subsidised PPP appeared	Introduction of and strong support for a NUTS 4-level voluntary multi-purpose association system. County-level association dispreferred.	Sale of assets continued; indebtedness grew	The majority of financial services were subordinated to public procurement	According to estimations, the number of de facto insolvent players grew significantly; some local governments got into a debt trap	Experiments for the decentralisation of certain subsidies to counties and development regions Unsatisfactory results

"Incidentally", such decentralisation causes significant disorder and dysfunctions in the provision of actual public services, which can be well illustrated by the decreasingly efficient operation of the public education system.[3] The "creeping decentralisation" of the 1990's and the decrease in the real value of normative subsidies were clear signs of the practice, as is illustrated by *Table 2.*

Certain quantifiable characteristics of fiscal recentralisation and conflict decentralisation are summarised in *Table 3.*

Another characteristic of the "Hungarian model" worth to mention in this article is the *ambiguous* fiscal discipline[4]. First, local authorities operate using a single fund, whereby they have been given the opportunity to use the revenues from privatising their assets for supplementing their deficient current sources. This is clearly shown by *Table 4*. Second, the LGA has created the opportunity of extremely liberalised capital market relations. Third, the borrowing limit for local governments[5] and the act on debt settlement procedure known as the 'local government bankruptcy act', considered a "Hungaricum", are meant to counterbalance the above. Since mandatory services are left underfinanced by the state, a significant circle is affected by Emergency Operating Grants meant to be exceptional subsidies originally; moreover, a supplementary fund accessible under a discre-

Table 2

CHANGES IN THE EXPENDITURE OF THE LOCAL GOVERNMENT SECTOR (1990–2007)

Year	GFS expenditure of local governments (HUF bn)	Nominal change in expenditure (%)	Consumer price index* (%)	Change in real value (%)
1990	315	–	–	–
1991	374	118.5	135.0	87.8
1992	489	133.3	123.0	108.4
1993	599	120.4	122.5	98.3
1994	750	125.2	118.8	105.4
1995	800	106.7	128.2	83.2
1996	913	114.1	123.6	92.4
1997	1,135	124.3	118.3	105.1
1998	1,348	118.8	114.3	103.9
1999	1,476	109.5	110.0	99.5
2000	1,651	111.9	109.8	101.9
2001	1,902	115.2	109.2	105.5
2002	2,286	120.2	105.3	114.1
2003	2,533	110.8	104.7	105.8
2004	2,689	106.0	106.8	99.0
2005	2,972	110.5	103.6	106.7
2006	3,210	108.0	103.9	104.0
2007	3,203	99.2	108.0	92.0
2008**	3,410	106.0	106.4	99.6
2008/1990***	–	1.083	995.0	109.0

** CIP is not the most suitable indicator to measure changes in the price level of local public services. According to my estimations, "the local government price index" is higher than that, due to the special consumer basket of the sector.*
*** Preliminary.*
**** Due to the widening mandatory tasks and changes in production efficiency the long term real value only a rough estimation.*

Table 3

SOME INDICATORS OF THE FINANCIAL SITUATION OF LOCAL GOVERNMENTS IN THE YEARS 1991–2007

Indicator	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008 estimate
GFS expenditures a % of GDP	15.0	16.9	16.9	17.2	14.4	13.2	13.3	13.4	13.0	12.2	12.5	13.3	13.4	13.0	13.5	13.5	12.3	12.6
Grants from central government. % of GDP %	9.5	9.6	8.6	8.0	7.3	6.2	5.7	5.8	5.6	5.0	5.2	5.5	6.1	5.9	6.0	5.6	5.2	5.2
Number of opertational central grants	35	42	45	48	54	58	77	86	91	73	89	88	120	137	162	134	158	151
Local tax revenues % of GDP	0.4	0.6	0.8	0.8	0.8	1.2	1.3	1.4	1.7	1.6	1.7	1.7	1.7	1.8	1.8	1.9	2.0	2.1
Investment grants from general government % of GDP**	0.7	0.9	0.6	0.7	0.5	0.4	0.5	0.5	0.6	0.5	0.6	0.6	0.5	0.4	0.6	0.6	0.7	0.4
Number of investment subsidies.	1	3	3	5	5	6	6	9	18	7	10	10	12	13	14	15	19	14
Capital expenditures % of GDP	2.5	3.3	3.1	3.9	2.5	2.1	2.6	2.8	2.3	2.4	2.6	2.8	2.3	2.2	2.6	2.9	2.3	2.6

*excl. Health Fund.
**incl. EU funds.
Source: the author's compilation based on Ministry from Finance data

Table 4

THE GFS BUDGET POSITION OF THE HUNGARIAN LOCAL GOVERNMENT SECTOR WITH AND WITHOUT PRIVATISATION REVENUES

Year	Budget GFS*-balance including privatisation revenues (HUF billion)	% of GDP	Budget GFS*-balance not including privatisation revenues (HUF billionn)	% of GDP
1994	–45.5	–1.0	–55.7	–1.3
1995	8.5	0.1	–17.2	–0.3
1996	47.9	0.7	0.6	0
1997	66.5	0.7	–24	–0.2
1998	– 8.7	0	–28.1	–0.3
1999	22.9	0.2	1.1	0
2000	4.9	0	–32.1	–0.2
2001	1.2	0	–91.4	–0.6
2002	–104.9	–0.6	–199.5	–1.2
2003	–31.6	–0.17	–40.7	–0.2
2004	–16.5	0	–119.2	–0.6
2005	–81.4	–0.37	–202.6	–0.9
2006	–156.5	–0.67	–286.5	–1.2
2007	–53.9	–0.2	–168.9	–0.65
2008**	–90.0	–0.33	–220.0	–0.8
2009***	–134.0	–0.5	–228.0	–0.8

Source: Ministry of Finance

*Under the original (no longer valid) methodology, privatisation revenues were included in the GFS-balance. This is no longer allowed by the new GFS-standard and the ESA- methodology.

** Preliminary data

*** According to the calculations of the budget act

tionary government decision also introduced after the turn of the millennia.

On the whole we can say that the "Hungarian model" is characterised by "collective irresponsibility" and the lack of fiscal discipline.

Last but not least in the operation of the Hungarian local government system the management has always been focused on the prevailing budget (flow attitude), whereby till recently typically no room has been given in public finance systems to the attitude focusing on conditions related to properties (stock attitude)[6]. The reason why it has involved growing tension is that, at the birth of the system, local governments became the owners of a significant volume of different kinds of properties. Operational subsidies do not provide coverage for the replacement of assets depleted in the provision of public services and there is no institutional pressure forcing local governments to apply responsible asset management. From the beginning, the state system of development subsidies has carried out allocation by tendering. Despite the refinements made in the past ten years, the multi-channel nature of payment[7], the structure of the matching funding system have distorted the investment preferences of local governments, dispersing of investment sources and, in many cases, the creation of unfinanceable and/or superfluous capacities. Table 3 reflects the changes in the number of the legal titles of allocation of development subsidies, which fit well to the pressures under various coalition constellations. The asset loss of local authorities is apparent not only in the sale of assets and in the fact that the annual investment of the sector falls short of the calculated amortisation of local government assets (Vigvári, 2007b), but also in the financial assets easy to measure.

The pecuniary conditions can be analysed from a special point of view by reviewing the evolution of financial assets. This reflects the clear fact on the one hand that debts are *negative assets.* On the other hand – in my opinion – following from the special logic of the Hungarian system, local government involvement in public utility companies performing mandatory services, considered as assets from an accounting point of view but incorporating liabilities essentially, should be deducted from what is interpreted as net assets. Giventhe tensions related to the service fees charged by these companies,[8] it can be considered a careful approach if this item[9] is taken as a *neutral* one, i.e. an item not influencing financial assets. Following this approach, it can be observed by skimming through the data of the Hungarian National Bank presented in *Table 5* that, *since 2003, the sector as a whole has been insolvent, i.e. the value of its free financial assets does not cover for its financial liabilities*[10]. This interpretation of insolvency follows from the constitutional characteristics of local governments that they, as a main rule, are obliged to use their assets (including owner's participations) on performing their mandatory services.

In the Hungarian circumstances, the excessive ownership entitlements of local governments raise a legal barrier to even the spending assignment within the local government- or, in a broader sense, the government sector. An example for this has been the attempt of health care reform.

PUBLIC SECTOR REFORM, LOCAL GOVERNMENT REFORM IN HUNGARY

A wide circle of experts agree that the situation has matured to be reformed. A positive con-

Table 5

FINANCIAL ACCOUNTS OF THE LOCAL GOVERNMENT SECTOR (S.1313)

(HUF billion)

	2001	2002	2003	2004	2005	2006	2007	2008.H1
Financial assets	1 120.2	1 104.2	1 074.0	1 134.3	1 132.1	1 136.0	1 055.1	1 342.1
cash deposits	*196.2*	*220.5*	*212.6*	*243.0*	*241.2*	*274.6*	*382.1*	*421.5*
securities other than shares	*129.9*	*76.9*	*55.3*	*70.7*	*52.5*	*42.5*	*50.7*	*100.3*
borrowings loans	*54.5*	*70.6*	*71.3*	*79.4*	*84.2*	*82.8*	*66.3*	*58.8*
owner' participations	*695.1*	*697.7*	*692.2*	*697.5*	*705.9*	*710.5*	*695.3*	*691.5*
incl. stock exchange shares	*22.0*	*19.4*	*25.6*	*36.3*	*45.4*	*45.4*	*25.6*	*18.2*
investment vouchers	16.3	15.8	14.1	16.7	15.7	11.8	16.4	16.0
other shares participations	*656.9*	*662.5*	*652.5*	*644.5*	*644.7*	*653.3*	*653.3*	*657.3*
Liabilities	279.2	400.2	426.5	533.5	647.6	822.4	1.036	1.017.8
securities other than shares	*22.9*	*24.5*	*5.7*	*6.5*	*4.4*	*27.4*	*209.2*	*317.2*
borrowings loans	*147.4*	*241.6*	*276.7*	*366.6*	*415.4*	*543.8*	*576.8*	*471.0*
including borrowings from domestic credit institutions	*73.1*	*115.1*	*144.0*	*182.4*	*241.5*	*347.3*	*358.5*	*338.2*
foreign borrowings	*13.9*	*46.9*	*62.4*	*83.7*	*100.3*	*122.9*	*132.2*	*117.7*
Net financial assets of the local government sector*	184.1	41.5	–5.0	–43.7	–160.0	–339.7	–432.9	–333.0

Source: Hungarian National Bank

*Balance of financial assets and liabilities minus the value of other shares and participations.

sensus reach right as far as the "hows" of the solution, however. We believe that *one of the priority areas* of the establishment of a government sector fostering domestic demands as well as catch-up, i.e. *of a successful public sector reform, as you like, is the reconsideration of the services delegated to the state and, within its framework, a novel reallocation of services between the central and local government levels: i.e. the reform of the local government system.* In Hungarian professional discourse, the concept of reforms has been identified with that of downsizing and withdrawal. In the case of reforms involving a political change and "denationalisation", the meaning above is correct. Observing the processes in developed countries of times after the 1990's, however, we can see the application of a post-NPM-reform paradigm in these countries, referred to as modernisation strategy in the literature[11]. This is not only about institutional downsizing but is also about restructuring; sometimes even about the *establishment* of new institutions. The reforms are successful if they are system-like and the institutions are well adjusted to one another.

The modernisation above, starting from the local government system, induces changes in all areas of state operation since this area affects simultaneously the transformation of the regional system of state administration (public administration reform), the reconsideration of the economic development activity of the state (regional and economic development reform) as well as the provision of certain public services (from human services – public education, health care – to environment protection and the maintenance of physical infrastructure). At the same time, the local government sector is also an ideal place for the introduction of the public finance reforms necessary for the modernisation of the public sector. The international practice shows that neither some form of a maturity approach, nor programme-based budget planning was introduced in a shock-like manner, but by launching pilot programmes. In several countries, the "field of experiment and training" was exactly the subnational level. (Báger – Vigvári, 2007)

In practical action, the reform of the local government system – due to the complexity of the system – should be seized *in four dimensions,* in a way that the advance made in the individual fields should have a *system approach.* In this case, this overused term means that the steps made in the subfields should be in accordance with the demand of the other fields, should be synergic and, in the progress, measures to be withdrawn later should be avoided if possible. The latter is fostered by the scenario technique[12]. The relationship between crisis management and measures of a reform nature as well as the question of the rate of progress in time are important "reform technological" dilemmas. A piece of advice in this respect is that, during crisis management, no measures should be taken that contradict the target model of the reform.

■ In relation with the *first dimension,* the tasks related to *the constitutional status of local governments and to the public administration* system must be examined. This is basically a "package" concerning issues of the medium level of subnational governments[13] (elected regional or "large county" subnational governments, [Verebélyi (2000), possibly a region[14] corresponding the NUTS 1 level], the future of the level of micro-regions, the exercising of rights related to local governing and the introduction of the institution of mandatory association. There is a consensus that the medium level of the subnational government system – and the strategic planning, political and central governing functions of this – should be made stronger. There is a lack of agreement, however, on the range of the medium level, the rate of decentralisation as well as on exercising the rights of micro-regions and local authorities. It

Table 6

SOME INDICATORS OF THE ECONOMIC POTENTIALS OF VARIOUS TYPES OF LOCAL GOVERNMENTS

Type	Capital	Districts of the capital	Cities with county rights	Towns	Villages	Parishes	County governments	Total
Number of players as of January 1, 2007 (pieces)	1	23	23	274	146	2 708	19	3 194
Distribution of population %	16.80	19.59	29.64	6.46	27.51	0	100	
Distribution of LG's GFS revenues of 2007 national=100 (%)	12.7	11.1	17.8	25.2	3.8	15.0	13.2	100*
Distribution of LG's GFS expenditures in 2007 (%)	12.5	10.6	18.2	25.5	3.8	14.7	13.4	100*
Distribution of LG's revenues from local taxes in 2007 (%)	17.3	24.1	21.9	25.7	3.5	7.6	0	100
Distribution of LG's assets	44.2	ND	11.5	27.6	3	8.9	4.8	100
Distribution of debt	25.26	6.39	23.29	28.12	1.66	5.8	9.48	100
Distribution of other LG's laibilities	0.32	12.53	18.03	27.09	2.89	31.02	8.06	100

Source: own compilation based on Ministry of Finance data

** Figures before the implementation of the government order issued in 2001 prescribing the revaluation of assets.*

is a serious inner contradiction of the establishment of the current multi-purpose local government associations that decision-makers have tried to "squeeze" public administrational, provision of public services as well as settlement- and regional development tasks within one organisational framework. It is clear that public administration, human services, the maintenance of line infrastructures and regional development need different spatial frameworks to operate at a close to optimal level. Despite the facts mentioned above, it is true that the establishment of voluntary multi-purpose local government associations has "stirred up the backwater" and, generating some further pressure for action, may serve as a basis for further favourable changes. The debate regarding the question whether it is municipalities that should be the basic level of exercising local authority rights and, if so, whether it is necessary to determine some reasonable population minimum, is not public enough. We believe that via adequate constitutional solutions a well-functioning local authority system could be operated even by sustaining the local government rights of the settlement structure currently fragmented. The elected mayors of small municipalities – without an office or a body – may be the advocates of the local interests of small settlements and, in this function, the organisers of local public service provision. It is an economic argument against merging small municipalities into one district that it is not at small settlements where the reserves of the system can be explored; these should be found in the capital and in counties and cities having county rights by rationalising the cooperation of the latters. The economic potentials of various types of local government are presented in *Table 6.*

The greatest waste in the Hungarian local government system is the lack of a reasonable allocation of administrational tasks between the model for the capital and counties and cities of county status, and the consequent losses, as well as the simultanous political and administrational activities. The latter is illustrated by the fact that, from local government administration employees, 3 per cent are employed by Budapest Mayor's Office, 13 per cent by the Mayor's Offices of Budapest Districts, 15 per cent, 30 per cent and 23 per cent by the mayor's offices of cities of county right, towns and large villages respectively. 6 per cent of the employees work at county local government offices and 9 per cent at the notarial districts. Administrational expenditures make up 18 per cent of local government expenditure; in this field there is essentially no outside budget duty performance[14].

■ *The second dimension* of the reforms constitutes *the assignment of local services.* There are three questions that arise regarding this dimension. First,, it is necessary to delegate differentiated services and responsibilities to municipalities (villages, towns, cities) and to regional formations (micro-regions and regions) and, if so, by what legal technique is it possible? By the establishment of the regional level, in what circle should service decentralisation be carried out from the central level and servicerecentralisation from the local level? Second, in the case of agglomerations, should these be considered as special independent units of service provision? Last, but not least: what should be the nature of mandatory associations be like, i.e. should they involve a special circle of settlements and/or service provision with economies of scale and/or specified regional units? There is no need to look for brand new technologies and “re-invent the wheel” since, with respect to these questions, there is sufficient international experience easy to use, through the carefulapplication of which fast achievements could be attainable in the case of a political consensus. For the possible alternatives, cf. Gazsó et al, 2008. Another question relevant in this respect is whether it is right to operate health services and public education at the settlement level. In my opinion, recentralisation would be necessary in these fields. With respect to public education, depending on the implementation of regionalisation, some of the responsibility should be delegated to the medium level, while questions of content and staff should be made central authority. For the implementation of the economies of scale and logistic optimum of the health care supply system, the field should be assigned individual responsibility, also divided between the central and regional levels.

■ *The third dimension incorporates questions of service organisation.* In our opinion, the number and dominance of budget institutions should be reduced. One way to make this possible would be the establishment of mandatory associations, which could significantly curtail the number of the currently 13–14 thousand budget organs as well as the related administrational and information service costs. If the submitted bill[15] is passed, more up-to-date operational regulations may be worked out for budget organs. The regulation questions of task performance units outside the budget sector should be reconsidered as well[16]. The downsizing of service organisation focusing on self-sustaining institutions must couple with making the control of public moneys and community assets used by non-budget organisations stronger and more efficient.

■ The *fourth dimension is the modernisation of the funding system,* the subnational *financial architecture,* and the establishment of institutional solutions serving the strengthening of *budget discipline.* It includes changing the allocation mechanisms of central state grants as well as equalisation and development transfers, the order of money supply, questions related to the share of own sources, emphati-

Figure 2

POSSIBLE FIELDS OF MODERNISING THE LOCAL GOVERNMENT SYSTEM

	Radical reform by two thirds majority political consensus	Slower reform by simple majority consensus
Constitutional status, public administration reform	❶ requirement of local associations to provide services in certain areas of public policy ❷ more precise specification of the range of mandatory local services ❸ declaration of subnational governments of various levels and fixing the assignment of services among them ❹ separation of services between the state and local governments should be	
Delegation of local government authorities and duties	❶ health care and public education should be at least partly withdrawn from the local government level ❷local economic and regional development spending responsibilities should be partly transferred to the local level ❸the assignment of regionally interpretable some responsibilities (maintenance of line infrastructures, environment protection, flood prevention, etc.) to the regional level	❶ the deregulation of “branch acts” (public education, health care, etc.), financial and legal effects analyses of the rules
Service organisation	❶ the modernisation of the rules of asset management, including the increasingof the transparency of quasi-fiscal service provision ❷ in the modernisation of budget management, the introduction of differentiated regulations for various types of budget organs ❸ stonger regulations of the relations with the cooperating private sector ❹ encouraging associative service provision among the counties	❶ increasing the transparency of quasi-fiscal service provision ❷ in the modernisation of budget management, the introduction of differentiated regulations for various types of budget organs ❸ regulation of the relations with the cooperating private sector ❹ encouraging associative duty performance between counties ❺ encouraging more differentiated inter-settlement associations, instead of today's multi-purpose associations
Financing and financial architecture	❶ the modernisation of the state budget information system ❷ liquidation of the single fund; related budget rules ❸ stabilisation of the rules and techniques of source regulation for a political cycle, in a separate act ❹ the modernisation of the system of local rates within the framework of modernisation at the national economic level; granting the regional level the right to levy local rates	❶ the modernisation of the state budget information system ❷ budget rules incorporated into the act on debt settlement procedure ❸ stabilisation of the rules and techniques of source regulation for a political cycle, in a separate act ❹ the modernisation of the system of local rates within the framework of modernisation at the national economic level

cally the modernisation of the system of local rates, the tax or fee financing dilemmas of local services, the toughening of budget constraints and the question of limiting commitments. In the majority of developed countries, there are lively professional discussions on questions related to the ratio of local rates and central grants and to the optimal motivating role of transfers. OECD has set up even a work team to analyse the international experience and the possibilities to support the best international practices, as well as to strengthen the convergence of the national information systems utilized in the operation of subnational governments[17].

The possible scenarios of a reform process are presented in *Figure 2*, based on the findings of research conducted within the framework of the IDEA Public Administration Modernisation Programme of the Ministry of Home Affairs, the Hungary 2015 Project of the Hungarian Academy of Sciences-Prime Minister's Office as well as the asset management research of the ROP 3.1.1 programme[18].

In the case of the lack of the political consensus required, *action can be taken in the third and fourth dimensions basically. Within the scope of this, deregulation of branch acts and professional acts and the changes in financing closely related to these should be launched.* Several measures can be taken by simple parliament majority: some of the branch acts may be amended, for example, others can be rewritten to have a framework act nature; regional and institutional capacity regulation may be introduced and, related to this, central source regulation may be revised into new directions to be specified later.

The next urgent task is to transform the system of local rates and make tax administration more fruitful and efficient. On the basis of the past 15 years' experience behind us, differentiation between local rates[19] and local government taxes[20] should be considered. Local business tax, in its current structure, should be changed by all means.[21] In the reform of the system of local rates, *the tax burden on enterprises should be decreased and that on the population increased* compared to the current situation. Instead of the current tax burden of 10–90 per cent on the population and on enterprises respectively, a much more even *local level* tax burden is required. Increasing the role of local population taxation would strengthen the motivation for checking the accountability of local representatives. Through the transformation of the whole system of taxation it can be guaranteed that *the global tax burden on the population shall not increase.*[22] Leaving the global tax burden on the population unchanged does not mean a necessity to implement a much more even distribution of tax burden. This would also serve the whitening of the economy. The role of property taxes should be increased. Raising the rate of the vehicle tax currently levied by a transition to value-based taxation and the introduction of value-based property tax guaranteeing the possibility of writing it off the personal income tax, could be suitable techniques for the above. It must be guaranteed that, in local government revenues, the weight of local government taxes and local rates at least double from the current 12 per cent. While it is not necessary to abolish the local business tax, the tax base could be amended in a way – also on the basis of international examples – to reduce the cycle and inflation sensitivity of this source of income. The act on local rates may be amended by simple parliament majority as well.

It is necessary to guarantee the toughening of budget constraints at subnational governments, a prerequisite of which is the abolishment of the single fund. The single fund system followed in the current Hungarian practice is not widespread internationally. This measure, requiring the amendment of the LGA, would make it possible to demand local governments to have a balanced current budget or even a slight excess. The change would prevent the continuation of exhausting assets and would make the system of Emergency Operating Grants marginal once again. This rule would, at the same time, also assume adequate central support for the delegated mandatory duties and/or an adequate central tax allocation. Borrowing would still be available for financing investment expenditure as well as for liquidity purposes; the extent of borrowings would be specified considering the rate of net investments. The act on debt settlement should be modernised taking into account the experience of enforcement as well as changes in other fields of the regulation. Strengthening the financial discipline of local governments and toughening their budget constraints could be forced out by simple majority legislation. Making the act on debt settlement procedure more precise could be one way to foster the former, while other ways include simplifying central source regulation and making the system of financial control more closed.

A prerequisite for all the above is *changing the "philosophy" and means of central source regulation, which must be made accountable and transparent.* The way to achieve the latter is that, in the case of the second scenario, the deregulation of professional acts should couple with reducing the number of the legal titles of operational state subsidies to under 10, complementing this by the application of the transparent techniques of equalisation. In the case of the scenario based on the amendment of the LGA, the system of normative state contributions could be abolished through regional and inter-settlement equalisation subsidies based on increasing the role of local rates and distributing central taxes. In this case, it would be advisable to create an operational guarantee fund in which local governments as well as the central budget would perform payments and from which local governments in a special position could be financed. The supervision of the fund should be organised on a partnership basis (central government, regional governments and local government interest representations). It must be guaranteed that local government subsidies be reliable in the longer run; the basic rules must be laid down in a separate act, in accordance with the convergence programmes in force[23]. This is namely the condition for responsible and accountable local government medium-term planning, which is the basis for successful EU tenders. In times to come, the decisive majority of local developments are to be implemented from the sources of various EU tenders. For the financing of earlier postponed supplements and renovations, the operation of a central subsidy system in which the target savings of local governments would be complemented by the central government if necessary, should be considered. This "pre-saving" scheme would encourage local governments' readiness to make savings in the critical years of nominal convergence.

CONCLUSIONS

As a way of conclusion, there are three remarks to be made at the end of this study.

The first is related to the dilemma of feasibility and refers to short-term *opportunities*. It may be a justified counterargument that the proposals are of a weight that their implementation requires not only a political but as well as a professional consensus reached with the interest representation organs of those concerned. In the short run, there seems to be little chance to achieve this although the crisis has very clearly revealed the vulnerability of the country. This does not free government forces of the responsibility of constructive action, however. Such scope of action includes the modernisation of the state budget information system, the simplification of source regulation and the guarantee for the relative stability for rules, the implementation of which may generate positive changes in local government behaviour.

The second remark refers to short-term threats. If reforms remain at the level of promises, this will intensify the collapse of the current system. The *ideas of change get incorporated into the expectations of players,* generating short-term focused behaviour leading to further erosion. A good example for this is the bad communication of making local governments' debt restrictions stricter. This, like a *schoolbook example,* has generated accelerating indebtedness in the sector since individual local governments are able to take rational action if they try to reach the desired status *on the basis of their current level of informedness.* In this case this means that, so as to cope with the financing of the growing deficit and raise sources for the own contribution and pre-financing required for the absorption of EU sources, they escape to bond issuing. What makes things worse is that even banks are interested in this since, as subscribers of privately issued bonds, banks attain considerable profit by avoiding public procurement procedure. Financial statistics and market information reveal that the growth in risks involved in the instruments exceeds the growth in the credit port folio. Long-term indebtedness in foreign currency denominated bonds and liabilities involved in the PPP constructions, which latter can be considered concealed credits, involve higher risks than bank loans. In the case of certain cities of county right, the present value of liabilities involved in the PPP-contracts is of the same volume as the significant credit portfolio. The result of the latter is the further loosening of local governments' fiscal discipline.

The government's several years' wrangling over local rates is similarly harmful. The earlier decision to abolish local industrial tax and the withdrawal of this decision later on, and the political tug of war over value-based property tax have not only created legal uncertainty but have also made local planning impossible. In relation with the local business tax, a third interest group has emerged. Under the Accession Agreement, local governments were to abolish the earlier granted local industrial tax credits from January 1, 2008. It is by no chance that, prompted by the Italian example[24], it was the Hungarian subsidiaries of global enterprises that lobbied strongly against the total abolishment of local business tax. The situation has changed, the European Court has not found this tax unlawful, the government had, however, incorporated this extra source into its budget bill for 2008, violating the constitutional logic of the system once again. Granting tax credits and exemptions is an efficient means for local economic development. Withdrawing these sources once this policy has "paid", i.e. incorporating them when calculating central contributions means dissuading local governments from any strategic thinking. The strengthening of the sector should not be sacrificed on the altar of momentary fiscal stability. In addition, it is necessary to establish institutions, mentioned above, that foster the strengthening of local governments as well as their transparent operation and guarantee of budget discipline.

The third remark is to refer back to the title of the article and the international tendencies mentioned in the first part, as well as the implications of the latter to Hungary. We can see that the Hungarian local government model has been increasingly unable to utilise the advantages of fiscal decentralisation, let alone supporting perseverance in the global competition. We have seen that, at the birth of the "Hungarian model", it had several progressive features besides being characterised by several illusionary solutions as well[25]. By the traditional centralisation reflexes of the Hungarian governments and the pressure[26] that arose during the transition, this model was deformed into a system focusing increasingly on conflict decentralisation rather than the reasonable distribution of government functions. The treatment of the problems of the Hungarian economy like fostering employment, especially the competitiveness of the segment thereof not involved in the global allocation of work, significantly depends on the economic organisation and development ability of the subnational government level.

Notes

1 Studies by S. Varga (2004), Verebélyi (1995) and Vigvári (2006a) have been devoted to the issue.

2 For more details, cf. the volume summarising the research conducted with the framework of the ROP 3.1.1. Programme, Vigvári (ed), (2007)

3 This is meant to be measured by the PISA surveys.

4 For the term of fiscal discipline, cf. Kornai (1997)

5 Somewhat misunderstanding its effect, the international literature welcomes this as the only Hungarian budget rule.

6 It is exactly this problem that the efforts of various intensity for the introduction of accrual accounting and budgeting in developed countries is meant to solve.

7 This is partly a price paid for coalition governing since it seems to be a natural demand by the ministries of different parties to distribute money within their own authority.

8 These fees do not cover for the replacement of physical assets necessary for the performance of duties.

9 The category of 'other shares and participations'

10 The constitutional situation that local governments must not be dissolved without a legal successor belongs to such an interpretation of insolvency.

11 For a detailed and country-specific description of these strategies, cf. Lane, J. E. (1977), Pollit, Ch. – Bouckaert, G. (2004), or, in the Hungarian language, Zupkó (2002).

12 In the IDEA Work Group, a most interesting study presenting the "reform technology" has been made. Péteri (2006)

13 For the professional stances on this issue, cf. the works of Ágh (2005), Pálné, K. J. (2001), Horváth, M. T. (ed) (2004) and Verebélyi, I. (2004).

14 This should be emphasised because the functional balance of local governments certainly does not reflect the outside budget moneys related to the function concerned. If a central heating service is a budget organ, the total expenditure on it (including the central heating fees) is part of the functional expenditure; if this is a business organisation- even if owned in 100 per cent by the local government – only the local budget payments or potential subsidies of this business organisation appear there.

15 Proposal

16 Cf. the studies of the volume Vigvári (ed) (2007) on the issue.

17 Network on Fiscal Relations Across Level of Government – a forum Hungary has not joined. Some of its important publications are listed under the References.

18 For the volumes summarising the research findings, cf. the References.

19 An optional tax that may be levied under the European Charter of Local Governments.

20 Taxes to serve as local government revenues exclusively, which are obligatory to levy.

21 The developments related to the local industrial tax in Hungary reflect a typical situation. Before the derogation period on the related exemptions and tax credits was to expire, large companies exercised considerable pressure for the abolishment of this tax, with reference to EU law primarily. It has become clear in recent times, however, that the tax

suits the legal order of the EU; other reasons should be found for the urged changes.

22 This certainly does not exclude – on the contrary, it demands enlarging the circle of taxpayers, the general tax base. A reasonably chosen local tax, through adequate tax administration, could be significant means in whitening the economy.

23 After accession to the Euro zone: stability programmes

24 For the details of this cf. Deli (2006)

25 These are extensively analysed by Pálné (2008)

26 Cf. Csaba (2006)

Literature

Ágh, A. (2005): Közigazgatási reform és EU versenyképesség: A konfliktus-konténerek felszámolása (Public administration reform and EU competitiveness: Eliminating conflict-containers), in Vigvári, András (ed) (2005): Félúton. Tanulmányok a helyi önkormányzatok finanszírozási rendszerének továbbfejlesztési lehetőségeiről (Midway down the road. Studies on the development opportunities of the local government funding system), *IDEA, MKI, TÖOSZ, pp. 15–20*

Allen, R. – Tommasi, D. (2001): Managing Public Expenditure, *A Reference Book for Transition Countries OECD, Paris*

Báger, G. (2006): Az állami szerepvállalás új vonásai a XXI. század globalizált világában (New traits of state role in the globalised world of the 21st century), in Vigvári, András (ed): Vissza az alapokhoz! (Back to the Basics!) *MTA-MEH Stratégiai Kutatások, Új Mandátum Publisher, pp. 9–41*

Báger, G. – Vigvári, A. (2007): Államreform, közpénzügyi reform, Nemzetközi trendek és hazai kihívások (State reform, public finance reform, International trends and national challenges), *SAO-RDI study*

Balassone, F. – Franco, D. – Zotteri, S. (2004): Fiscal Rules for Subnational Governments: Lessons from the EMU, in Kopits, G. (2004) (ed.): Rules-Based Fiscal Policy in Emerging Markets. Background, Analysis and Prospects. Palgrave, *IMF, pp. 219–234*

Council of Europe (2002a): The risks arising from local authorities' financial obligation, *Local and regional authorities in Europe, Nr. 76.*

Council of Europe (2002b): Recovery of local and regional authorities in financial difficulties, *Local and regional authorities in Europe, Nr. 77.*

Csaba, L. (2006): Felemelkedő Európa (Europe on the rise), *Akadémiai Publishers*

Dafflon, B. ed. (2002): Local public finance in Europe. Balancing the budget and controlling debt, Edward Elgar Publishing, Cheltenham and Northampton, *ISBN 1-84064-878-3.*

Davey, K. (2000): A magyar reformok európai szemszögből (Hungarian reforms from a European angle), *Magyar Közigazgatás, September, pp. 517–520*

Davey, K. (2004): Local government size, structures and competences in the European context, in Kopányi, M. (ed. et. al.): Intergovernmental finance in Hungary, A decade of experience 1990–2000, *Open Society Institute, Budapest*

Deli, L. (2006): A helyi adóztatás néhány kérdéséről – nemzetközi és hazai tapasztalatok (A few aspects of local taxation – international and national experience), in Vigvári, A. (ed) (2006): Decentralizáció, transzparencia, elszámoltathatóság, Tanulmányok a helyi önkormányzatok finanszírozási rendszerének továbbfejlesztési lehetőségeiről (Decentralisation, transparency, accountability, Studies on the development opportunities of the local government funding system) *IDEA, MKI, TÖOSZ, pp. 139–158*

Enyedi, Gy. (2001): Globalizáció és a magyar területi fejlődés (Globalisation and Hungarian regional development), *Tér és Társadalom, Issue 1*

Enyedi, Gy. (2004): Regionális folyamatok a posztszocialista Magyarországon (Regional processes in post-socialist Hungary), *Magyar Tudomány, Issue 9*

Garzarelli, G. (2004): Old and new theories of fiscal federalism, organizational design problems and Tiebout, *Journal of Public Finance and Public Choice XXII (1–2), pp. 91–104*

GAZSÓ, I. – DR. KOVÁCS, R. – DR. PERGER, ÉVA – DR. SZEGVÁRI, P. – DR. VIGVÁRI, A. – DR. ZSUGYEL, J. (2008): A nagyváros és környéke a kistérségi rendszer szempontjából (Cities and their surroundings from the aspect of the small region system), I.–II. *Területi Statisztika, pp. 524–543*

HEGEDŰS, J. (2004): Off-budget revenues and expenditures: a challenge to subnational finances, in Kopányi, M. (ed. et. al.): Intergovernmental finance in Hungary, A decade of experience 1990–2000. *Open Society Institute, Budapest*

HEGEDŰS, J. – TÖNKŐ, A. (2006): Az önkormányzati gazdasági társaságok szerepe a helyi önkormányzatok vagyongazdálkodásában: a feltételes kötelezettségvállalás ("contingent liability") problémája (The role of municipality enterprises in the asset management of local governments: the problem of contingent liability), in Vigvári, András (ed) (2007): A családi ezüst. Tanulmányok az önkormányzati vagyongazdálkodás témaköréből (The Family Silver: Studies about the Asset Management of Local Municipalities), *Közigazgatási olvasmányok, COMPLEX Publisher, pp. 67–94*

HORVÁTH M., TAMÁS (2002): A helyi közszolgáltatások szervezése (Organising local public utilities), Dialóg – Campus, Budapest – Pécs

HORVÁTH M., T. (ed) (2004): A regionális politika közigazgatási feltételei, Variációk az uniós csatlakozás küszöbén (The public administration conditions of regional policy, Variations on the threshold of EU accession), *BM IDEA Program, MKI*

HORVÁTH M., T. (2005): Közmenedzsment (Public management), Dialóg – *Campus, Budapest – Pécs*

HORVÁTH M., T. (ed) (2007): Piacok a főtéren, Helyi kormányzás és szolgáltatásszervezés (Markets at the main square, Local governing and public utility organisation), *Közigazgatási olvasmányok, COMPLEX Publisher*

HORVÁTH M., T. (ed) (2007): Nézetek és látszatok, Decentralizáció a pénzügyi környezet szemszögéből (Views and images, Decentralisation from the aspect of the financial environment), *Közigazgatási olvasmányok, COMPLEX Publisher*

ILLÉS, I. (2005): Önkormányzati finanszírozás és adózás nemzetközi összevetésben (Local authority financing and taxation in an international comparison), in Vigvári, A. (ed) (2005): Félúton, Tanulmányok a helyi önkormányzatok finanszírozási rendszerének továbbfejlesztési lehetőségeiről (Midway down the road. Studies on the development opportunities of the local government funding system), *IDEA, MKI, TÖOSZ. pp. 21–46*

KASSÓ, ZS. (2006a): Miért van szükség az államháztartás pénzügyi beszámolórendszerének megváltoztatására? in Vigvári, A. (ed) (2006): Decentralizáció, transzparencia, elszámoltathatóság, Tanulmányok a helyi önkormányzatok finanszírozási rendszerének továbbfejlesztési lehetőségeiről (Decentralisation, transparency, accountability, Studies on the development opportunities of the local government funding system), *IDEA, MKI, pp. 83–129*

KASSÓ, ZS. (2006b): Szükség van-e államszámviteli törvényre? (Is there a need for a state accounting act?) in Vigvári, A. (ed) (2006): Vissza az alapokhoz (Back to the Basics)! *MTA-MEH Stratégiai Kutatások, Új Mandátum Publisher, pp. 132-154*

KOPÁNYI, M. – VIGVÁRI, A. (2003): The economic policy issues about increasing the borrowing ability of the local governmental sector, *Public Finance Quarterly, Issue11, pp. 1071–1088*

KOPÁNYI, M. – HERTELENDY, ZS. (2004): Municipal Enterprises in Hungary, in Kopányi – Wetzel – Daher (ed.) (2004): Intergovernmental Finance in Hungary, A Decade of Experience 1990–2000, *World Bank, OSI Budapest*

KORNAI, J. (1972): Erőltetett, vagy harmonikus növekedés (Forced or harmonic growth), *Akadémiai Publishers*

KORNAI, J. (1997): Pénzügyi fegyelem és puha költségvetési korlát (Fiscal discipline and the soft budget constraint), *Quarterly Journal of Economics, November, pp. 940–953*

KORNAI J. – MASKIN E. – GÉRARD R. (2004): A puha költségvetési korlát (The soft budget constraint) I – II, *Quarterly Journal of Economics,, July-August, pp. 608-624, September, pp. 777–809*

KOVÁCS, Á . (2003): Pénzügyi ellenőrzés, változó erőtérben (Fiscal control in a changing field), *Perfekt Publisher*

KOVÁCS, Á. (2006): Competitiveness and Modernisation of Public Finances. Selecting Scenarios in Hungary, *OECD Journal on Budgeting, Volume 6 , No. 3, pp. 69–92*

KOVÁCS, R. (2002): A településszerkezet és a közigazgatási rendszer inkonzisztenciája- a szuburbanizáció példáján, Budapest térségben (The inconsistency of the settlement structure and the public administration system – through the example of suburbanisation in Budapest region), *PhD dissertation, Pécs*

KRUGMAN, P. (2000): A földrajz szerepe a fejlődésben (The role of geography in development), *Tér és Társadalom, Issue 4, pp. 1–21*

KRUGMAN, P. (2003): Földrajz és kereskedelem (Geography and trade), *Közgazdasági kiskönyvtár, Nemzeti Tankönyvkiadó*

KUSZTOSNÉ, NY. E. (et. al. 2004): A helyi önkormányzatok és pénzügyeik (Local governments and their finances), *Consulting Önkormányzati Pénzügyi és Befektetési Tanácsadó Rt., Budapest*

LANE, J. E. (1997): Public Sector Reform, Rationale, Trends and Problems, *SAGE Publications.*

LÁSZLÓ, CS. (2001): Vargabetűk az államháztartási reform tízéves történetében (Detours in the ten years' history of public finance reform), *Quarterly Journal of Economics, October, pp. 844–864*

LENGYEL, I. (2000): A regionális versenyképességről (On regional competitiveness), *Quarterly Journal of Economics, Issue 12, pp. 962–987*

LŐRINCZ, L. (2005): A hatékony állam (The efficient state), *Magyar Közigazgatás, Issue 8-9, pp. 449–453*

LŐRINCZ, L. (2007): Közigazgatási reformok, Mítoszok és valóság (Public administration reforms, Myths and reality), *Közigazgatási Szemle, Issue 1, pp. 3–13*

MUSGRAVE, R. A. – MUSGRAVE, P. B. (1989): Public finance in Theory and in Practice, *International Edition McGraw-hill Book Company*

OATES, W. E. (1999): An essay on fiscal federalism, *Journal of Economic Literature, XXXVII, pp. 1120–1149*

OATES, W. E. (2005): Towards a second-generation theory of fiscal federalism, *International tax and public finance. Volume 12, No. 4, pp. 349–373*

OATES, W. E. (2006): On the theory and practice of fiscal decentralization, www.law.nyu.edu/bradford-conference/papers/Oates.pdf. Downloaded on September 11.

PÁLNÉ, KOVÁCS I. (ed) (1996): Európába megy-e a megye? (Counties going to Europe?) *Lectures at a conference in Harkány, October 26–27, 1995*

PÁLNÉ, KOVÁCS I. (2001): Regionális politika és közigazgatás (Regional policy and public administration), *Dialóg Campus, Budapest-Pécs*

PÁLNÉ, K. I. (2004): The legal and regulatory framework of fiscal decentralisation, in Kopányi (ed. et. al.): Intergovernmental finance in Hungary, A decade of experience 1990–2000, *Open Society Institute, Budapest*

PÁLNÉ, KOVÁCS I. (ed) (2005): Regionális reformok Európában, (Regional reforms in Europe) *BM IDEA Program, TÖOSZ*

PÁLNÉ, KOVÁCS I. (2008): Helyi kormányzás Magyarországon (Local governing in Hungary), *Dialóg Campus, Budapest-Pécs*

Financial Research Plc. (1999): A fiskális federalizmus és a magyar önkormányzatok (Fiscal federalism and Hungarian local governments), Vol. I–II, *Budapest, April*

PÉTERI, G. – HORVÁTH, M. T. (ed, 2001): Navigation to the market, *LGI, Budapest*

PÉTERI, G. (ed, 2003): From usage to ownership: transfer of public property to local governments in Europe, *LGI, Budapest*

PÉTERI, G. (2003): Resources of the region, Financial point of view to establish the regional governments, *Public Finance Quarterly, Issue 7, pp. 640–653*

PÉTERI, G. (2005): Önkormányzati forrásszabályozás: ideák és javaslatok (Local government source regulation: ideas and proposals), in Vigvári András (ed) (2005): Félúton, Tanulmányok a helyi önkormányzatok finanszírozási rendszerének továbbfejlesztési lehetőségeiről (Midway down the road. Studies on the development opportunities of the local government funding system), *IDEA, MKI, TÖOSZ*

PÉTERI, G, (2006): Hogyan csináljunk közigazgatási reformot? Dániai tanulságok Magyarország számára (How to make a public administration reform – Danish experience for Hungary), in Vigvári, A. (ed) (2006): Decentralizáció, transzparencia, elszámoltathatóság, Tanulmányok a helyi önkormányzatok finanszírozási rendszerének továbbfejlesztési lehetőségeiről (Midway down the road. Studies on the development opportunities of the local government funding system), *IDEA, MKI, TÖOSZ, pp. 11–44*

PITTI, Z. (2003): Az önkormányzati finanszírozás korszerűsítése (Modernisation of local government financing), *Magyar Közigazgatás, LIII., Issue 6, 2003, pp. 327–345*

PITTI, Z. (2005): Az önkormányzatok pénzügyi finanszírozásának modernizációja (Modernisation of local government financing), inVigvári, András (ed) (2005): Félúton, Tanulmányok a helyi önkormányzatok finanszírozási rendszerének továbbfejlesztési lehetőségeiről (Midway down the road. Studies on the development opportunities of the local government funding system), *IDEA, MKI, TÖOSZ, pp. 47–70*

POLACKOVA, H. (1998): Contingent Government Liabilities: a Hidden Risk for Fiscal Stability, Policy Research Working Paper 1989, *World Bank, Washington D.C., October 1998*

POLLIT, CH. – BOUCKAERT, G. (2004): Public Management Reform, A Comparative Analysis, Second Edition, *Oxford University Press*

PORTER, M. E. (1998): Clusters and the New Economics of Competition, *Harvard Business Review, November-December, pp. 77–99*

POTERBA, J. M. (1995): State responses to fiscal crises: the effects of budgetary institutions and politics, *NBER Working Papers 4375. National Bureau of Economic Research*

RATTSO, J. (2003): Fiscal federation or confederation in the European Union: the challenge of the common pool problem, in Müller, D. – Blankart, C. (ed.): A constitution for the European Union, Cambridge, Massachusetts, *MIT Press.*

RECHNITZER, J. (2004): A városhálózat és a régiók formálódása (The city network and the formation of regions), *Magyar Tudomány, Issue 9, pp. 978–990*

ROZSI, É. J. – DR. VÁRFALVI, I. (1999): Adóerőképesség és ami mögötte van, 1999 a helyi önkormányzatok költségvetésének tükrében (Tax capacity and what is behind it as reflected by local authority budgets), *Public Finance Quarterly, Issue 1, pp. 39–61*

SUTHERLAND, D. (2005): Fiscal rules for sub-central governments: design and impact, OECD Economics Department Working Paper No. 465. www.oecd.org Downloaded on April 12, 2006

SWIANEWICZ, P. (ed, 2004): Local borrowing: risks and rewards, *LGI, Budapest*

SZALAI, Á. (2002): Fiskális föderalizmus, Áttekintés (Fiscal federalism, Survey), *Quarterly Journal of Economics, May, pp. 424–440*

TÖRÖK, Á. (1999): Verseny a versenyképességért? (Competition for Competitiveness?) *Prime Minister's Office*

VÁGI, G. (1991): Magunk uraim, Válogatott írások településekről, tanácsokról, önkormányzatokról (Selected writings on settlements, councils, local governments), *Gondolat, Budapest, 1991*

VARGA, S. (2004a): Fél évszázad a helyi tanácsi és önkormányzati szabályozásban (Half a century in local council and government regulation) I, *Public Finance Quarterly 5, pp. 480–501*

VARGA, S. (2004b): Fél évszázad a helyi tanácsi és önkormányzati szabályozásban II (Half a century in local council and government regulation), *Public Finance Quarterly, pp. 631–648*

VARGA, I. (2005): Gondolatok az önkormányzatok vagyongazdálkodásának reformjáról (Thoughts on the reform of local government property management). in Vigvári, A. (ed) (2005): Félúton, Tanulmányok a helyi önkormányzatok finanszírozási rendszerének továbbfejlesztési lehetőségeiről (Midway down the road. Studies on the development opportunities of the local government funding system), *IDEA, MKI, TÖOSZ, pp. 91–114*

VEREBÉLYI, I. (1995): A helyi önkormányzati rendszer fejlődésének főbb irányai (Main trends in the development of the local government system), *Magyar Közigazgatás, February, pp. 65–85*

VEREBÉLYI, I. (2000): Önkormányzati rendszerváltás és modernizáció (Local authority system change and modernisation), *Magyar Közigazgatás, September, pp. 521–528 and October pp. 577–587*

VIGVÁRI, A. (1994): Önkormányzati gazdálkodás a kilencvenes években (Local authority management in the nineties), in Hozzáadott érték 94 (Added value 94). (ed. Imre Forgács), Gondolatok a gazdasági válságkezeléshez (Thoughts to economic crisis management), *Budapest , pp. 221–234*

VIGVÁRI, A. (2002): Központi pénzügyek, önkormányzati pénzügyek (Public finances, local government finances), *KJK-KERSZÖV Üzleti Kiadó Kft.*

VIGVÁRI, A. (2005a): Politikai és gazdaság és reformkényszer a helyi önkormányzati szektorban 1990–2004, Elemzés a helyi önkormányzati szektor problémáiról és a lehetséges megoldásokról (Political and economic pressures for reform, Analysis on the problems of the local government sector and on potential solutions). in Bőhm, A. (ed.) (2005): A helyi hatalom és az önkormányzati választások Magyarországon (Local power and local government elections in Hungary) 1990-2002, *MTA Politikai Tudományok Intézete, pp. 19–65*

VIGVÁRI, A. (2005b): Központi pénzügyeink (Domestic public finance), *KJK-KERSZÖV Üzleti Kiadó Kft.*

VIGVÁRI, A. (ed) (2006): A leggyengébb láncszem, in Vissza az alapokhoz! (Back to the basics!) MTA-MEH Stratégiai Kutatások. *Új Mandátum Publisher, pp. 42–66*

VIGVÁRI, A. (ed) (2007): A családi ezüst, Tanulmányok az önkormányzati vagyongazdálkodás témaköréből (The Family Silver: Studies about the Asset Management of Local Municipalities), Közigazgatási olvasmányok, *COMPLEX Publisher*

VIGVÁRI, A. (2007a): Magic weapon in fiscal policy? Thoughts on the budget rules applicable to the local governments, *Public Finance Quarterly, Issue 3–4, pp. 522–529*

VIGVÁRI, A. (2007b): A vagyongazdálkodás kapcsolata az önkormányzati gazdálkodással, működéssel és finanszírozással (The relation of asset management with local government management, operation and financing). in Horváth, M. T. (ed) (2007): Nézetek és látszatok, Decentralizáció a pénzügyi környezet szemszögéből (Views and images, Decentralisation from the aspect of the financial environment), Közigazgatási olvasmányok, *COMPLEX Publisher, pp. 67–101*

WEINGAST, B. R. (2006): Second generation fiscal federalism: Implications for decentralized democratic governance and economic development, *Working paper, Hoover Institution, Stanford University*

ZUPKÓ, G. (2002): Public Management Reform Trends at the Turn of the Millenium, *Századvég Publisher*

OECD (2006a): Fiscal Rules for Sub-Central Governments: Design and Impacts, *Network on Fiscal Relations Across Level of Government*

OECD (2006b): Fiscal Autonomy of Sub-Central Governments, *Network on Fiscal Relations Across Level of Government*

OECD (2006c): Intergovernmental Transfers and Decentralised Public Spending, *Network on Fiscal Relations Across Level of Government*