

Attila Chikán

Mechanisms of social coordination and the public sector

In our study, we first examine which coordination mechanisms are represented in modern societies, and in what ways; we address the role of the public sector, and the recent dynamics of these factors in Hungary. This is followed by an extension of our analysis to global coordination – the extent of Hungary's openness to international prospects calls for it in any case –, which takes us to conclude to discussing two subjects of key importance from the aspect of development in Hungary: the question of our relationship to the European Union and that of multinational enterprises.

MECHANISMS OF SOCIAL COORDINATION

In my opinion, the course and potentials of development for the Hungarian economy and society will be powerfully determined by the changes to be seen in the institutional structure and operations in the next ten to fifteen years: the principles, frameworks and methods that will provide the basis of regulating and controlling the operation of the society and the economy. To support this statement, let me cite a largely general opinion (where the only differences among the various interpretations are normally the emphases) stating that our course of development is formulated by three factors:

- implementation of fundamental social reforms needed in the public sector (education, healthcare, pension system, regional governance),
- harmonised and prudent monetary and fiscal policies that ensure stability in the economy and lead to a fast adoption of the euro,
- a capability of receiving and expediently applying considerable funds from the European Union.

It is clearly seen that these factors are all closely related to the method of organising and controlling social activities, or, to put it in the broadest of ways, the mechanisms of social coordination. In the research analysing the relationship between the public sector and competitiveness, it is a key issue to examine how these mechanisms operate, given that it is public administration that has been specialised to conduct social coordination, and, through it, to exercise fundamental influence on the success of societal operation and the country's competitiveness, which represent extremely important ingredients of public services in modern societies (and particularly so in Hungary, as revealed by the research).

The mechanisms of social cooperation are aimed at harmonising the activities of individuals and organisations specialised in the course of labour distribution. Since *Adam Smith*

(1776), we have been aware that specialisation increases the efficiency of each actor in the economy (and society) that operate in their own specialised areas. For individual organisations (and the whole society) to be efficient, it is also necessary, in addition to the efficiency of individual actors, to have achieved a state desirable for society as a result of individual behaviour patterns (and the resulting performance) and their interactions.

Multiple procedures are suitable to achieve coordination. We are going to examine five baseline cases of these mechanisms. Other than the four mechanisms formulated by *János Kornai* (Kornai, 1983) (market, bureaucratic, ethical and aggressive coordination), we are also addressing a fifth coordination mechanism termed as cooperative transactions by the Planning Office of the Netherlands (Kovács, 2005), which relies on negotiated cooperation among actors to meet our research objective, focussing on what the public sector's role is in society in case of each coordination mechanism and its application.

A detailed analysis of the abovementioned coordination mechanisms is not addressed in this study; we only reference these as much as necessary to discuss the role of the public sector.

The key points of each coordination mechanism

Market coordination is built on horizontal relations and agreements between equal parties. The regulator's role is filled in by the market price resulting from mutual agreement (bargain) between the parties, and the subjects to coordination are buyers and sellers. The latter make the result of their own (specialised) activity available to buyers if they pay the negotiated market price.

In case of *bureaucratic (organisational)* coordination, the exchange of activities takes place

on the instructions of an actor (the coordinator) positioned higher in the bureaucratic hierarchy. One of the parties is subordinated to the other, and the means of regulation is command.

Ethical coordination entails voluntary cooperation of equal parties: relations are rarely monetized here, and coordination is directed at an exchange of certain activities brought about by (mutually acceptable) values and social norms.

Aggressive coordination takes place in subordinated relationships, based on a dominance of power: the stronger party's will prevails. It is normally used (with no legitimation by any legal background) when none of the previously mentioned four mechanisms are functional, i.e. the aggressive mechanism is directed at filling a vacuum in coordination.

Cooperative transactions represent a transition between market and bureaucratic coordination, provided they describe the business relationships formulated between the market actors and the state institutions exercising supervision over them in line with the principles of bureaucratic regulation. These are regulated in a particular manner that also incorporates elements of market and bureaucratic coordination.

Coordination mechanisms were originally understood in the framework of nation-states. Today, however, globalisation has necessitated certain enlargement of these frameworks, as coordination exceeds the national framework in a number of aspects: let us consider the role of multinational enterprises in market coordination, or the fact that EU member states are no longer allowed to negotiate directly in the WTO, only through the EU (the scene of bureaucratic coordination has changed), or the discontinuation of Russian gas supplies as an example of international aggressive coordination. It is therefore necessary to discuss mechanisms of social coordination globally, in an international framework.

The role of the public sector in coordination mechanisms

The elements of the public sector play an important role in coordination mechanisms; the key role among various other areas, however, is due to public administration.

Public administration is a sector of society particularly specialised in coordination. In terms of our criteria for investigation, it fulfils a triple function:

- regulates, influences, provides legal and institutional frameworks to all sectors of society (and that includes itself),
- provides services: by establishing the human and real infrastructure, regulating, setting up a system for and operating the delivery of community services (education, healthcare), forms and environment for social sectors,
- protects the interests of those in need, or unable to articulate or assert their interests (disadvantaged strata, and the natural environment).

For the parties to market coordination, public administration determines the operating conditions or the framework of the set of rules. The parties participate in each transaction voluntarily and at their unanimous will; however, it would never be profitable (or probably possible, either) to establish the conditions to these transactional relations one by one, from scratch. In each country, a regulatory system is in place that determines and provides the environment and conditions for individual relationships (for example, regulation of competition or of contractual relations).

The chief depositary of bureaucratic coordination at the level of nation-states is public administration, but it is not alone in performing this function. It contacts others in the course of distributing work, thus practically intermediating among the international environment influencing nationwide coordination

in a crucial way, in cases, international bureaucratic coordination and national institutions.

The main characteristics of the public administration hierarchy include internal complexity (we must discuss, for instance, organisational, functional and regional hierarchies), and that public administration must coordinate

- itself,
- the operation of other coordination mechanisms,
- the relationship among coordination mechanisms.

These particularities of coordination develop a complex network. This network is often modelled as one that provides coordination as a whole or a holistic unit in reality, however, this is far from being so, the network consists of organisations and individuals holding relatively independent, unique interests (and often values). This kind of internal structure represents probably the principal obstacle to the reforms of bureaucratic coordination.

The form of ethical coordination as implemented in a country is mainly dependent on social factors, historical traditions and culture, but an important role is also assigned to public administration: establishment and operation of institutional and legal conditions that facilitate institutionalisation of ethical coordination and its impact on society's operation. An important thesis of Kornai is that ethical and aggressive coordination are unstable, and tend to transform into one of the two fundamental mechanisms, market or bureaucratic coordination within a short timeframe. Social movements formulated on an ethical basis often struggle against institutionalisation (they declare their non-conformity, do not operate organisations in a traditional sense, etc.), and refrain from laying their activity on market bases; transformation, however, is rapid in the majority of cases – otherwise, the movement in question falls apart and disintegrates. [A big question is to what extent global NGOs (civil sector)

operating in a strongly institutionalised form, and their local representations and divisions can be considered to be part of bureaucratic coordination.] Experience suggests that the closer the daily activities of a civil organisation are to day-to-day politics, the less they can carry on being organised on an ethical basis. The flair of bureaucracy for self-actualisation, as well as political interests exert a strong suction effect on changing the nature of coordination, and create an organisation that can be involved in the bureaucratic /political sector instead of ethical coordination, and that lends itself easier to being controlled and influenced.

The situation is slightly different with strictly professional organisations. These play a substantial role in establishing norms and professional standards, and raising these by way of education and training, and perform professional lobbying to no insubstantial extents. These organisations are sustained and maintained by shared interests of the business sector, assuming relations particularly to the government sector and influence on bureaucratic coordination as crucial goals, in addition to raising the professional standard. In lucky cases (and cases are surprisingly often lucky) these organisations are capable not only of protecting and supporting individual interests of their members, but also of implementing more comprehensive goals.

The extent to which proposals, suggestions and opinions are adopted significantly influences the activities of civil organisations – and this is where a considerable role of the public sector is seen. An important, if not the most important benchmark of success for civil organisations lies in this issue: the more it is heeded, the greater the ground for activeness in promoting creativeness. At the same time, neglecting them easily leads to the members of civil organisations losing heart, those that basically joined on a voluntary basis, not for salary or other compensation, – easily bringing about

dissolution or aggressiveness of these organisations.

The role of public administration is considerable also in coordination mechanisms built on cooperative transactions, given that these mechanisms rely on balancing two forces: the financial muscle of the market / business sector and the stabilising, goal-setting and regulatory force of the public sector, i.e. on linking the crucial elements of the two main coordination mechanism. This coordination mechanism need equally meet the demands in market coordination for profit gains and the principles of exercising power in bureaucratic coordination. [The mechanisms of negotiating societal interests are cited as typical examples of this web of relationships, such as the bargaining processes concerning wages/salaries and social measures or PPP (*public-private-partnership*) cooperation.] The actual role of initiation and the opportunity to pass final decisions both lie with the public sector, by virtue of its functions of making and regulating policies. Examples of the business sector initiating material agreements or projects are also seen, these, however, are less frequent, and the dominant role in decision-making is still played by public administration. Market elements in these decisions can mostly be detected in the financial implementation of political goals represented by public administration and in creating the conditions thereof.

Elements of aggressive coordination in modern societies are generally manifested in dissatisfaction with the public sector. Such dissatisfaction is generated in the wake of social measures that trigger objection of groups with a relatively strong capability representing their interests, on the one hand, and in cases where such groups feel unprotected by the public sector against decisions that are passed in the market sector and adversely affect some of the community (see, for instance, some of the privatisation decisions). A peculiar case inducing aggressive mechanisms (demonstrations, strikes)

is when an aggressive response is received to decisions made within the public sector: this is built on consequences of certain measures taken by public administration in the field of public services, as a rule.

It is to be seen then that public administration plays a crucial part in determining which coordination mechanism prevails the current governance of society. This, however, is mostly influenced by politics, or is founded on the basic choices of values in the course of deep-rooted, long-term development of society.

Mention must also be made of the relationships of society coordination mechanisms and the other major area of public administration, public services. These are also dominated by public administration, the triple function of which (regulation, delivery of services, protection of interests) particularly strongly impacts public services. The regulatory function is used to decide which coordination mechanisms are supported in individual fields of public services. The current issues of education, healthcare, social security and the pension system, as well as the measures and reforms directed at reorganising them primarily focus precisely on determining the major elements of coordination in each field, and how to mix them. We do not address the reforms in each service in detail, we only flash on a few areas particularly important in terms of coordination and choice of values.

Such a field is regulation of admissions, tuition fees and PPP constructions in education. Currently, an incredibly confusing system is in place: the state keeps mixing various mechanisms for some reason. (Detailed investigations of education and perhaps the other subsystems, healthcare and the pension system, may be worthwhile from the aspect of coordination mechanisms in a future phase of research). In these cases, the regulatory role of public administration is highlighted: it determines all other elements (delivery of services

and protection of interests). Introduction of a general tuition fee in higher education is such a regulatory issue. The main objections to this are raised precisely on the part of services (where quality improvement does not necessarily follow the introduction of tuition fees, particularly because the funds withdrawn from higher education due to restrictive measures, significantly exceeds the expected revenue from tuition fees) and interest protection (promoting education of disadvantaged students).

Similar contradictions are seen in the field of healthcare or the pension system. These are rooted in a lack of a comprehensive value system in social policy, which would control the choice among coordination mechanisms. The circumstance that politics in Hungary has practically behaved to meet short-term goals only in the past fifteen years has not facilitated due representation of long-term societal interests and values in regulation. Activities of political forces focussed on partial areas and easy-to-achieve results, as well as setting programmes and actually governing society along the lines of political (and not social!) interests has led to a lack of consensus, even in terms of the most fundamental relations of social coordination. This virtually prevents professionals in certain fields from joining coordination because too serious, almost irresolvable contradictions are in place, firmly planted in the system of each field.

Dimensions and relations of social coordination

It is clear that the elements of all coordination mechanisms are available in each society, and it is also important that they are needed, too. Each mechanism has its benefits and drawbacks, and the dimensions of social coordination brought about by individual coordinations are distinguishable.

The scene of market coordination is the market where acts take place under the token of each actor's behaviour to follow their self-interests in a way that they search and find subsets of their self-interests where they can conclude mutually advantageous agreements. This facilitates the market mechanism to dynamize society, as the actors interact on a voluntary basis (aware of an advantageous situation achieved or deemed), trusting that this will improve their situation.

In case of bureaucratic coordination, the necessity of governing society and establishing regulated relations comes to the forefront. Not everything can be trusted to self-interest driven behaviour, mechanisms are needed to set limits to following self-interest, determining a framework. The source of the necessary power to do so is popular will in democratic societies, which leads the expression of will back to the individual again, through mechanisms of more or less efficiency. Participation in these processes is also voluntary; however, the consequences bear significantly (and often compulsorily) upon the individual, irrespective of whether they participated in decision-making mechanisms.

Ethical coordination is fuelled by human selflessness, or will to give without (direct) compensation. It appears where the force of the two fundamental mechanisms cannot reach. It is originally one-sided, and it is used to correct the detrimental side effects caused by the two fundamental mechanisms. It gains more space where social solidarity is stronger. This is either rooted in the fact that the majority of society satisfy their needs at a higher level of Maslow's hierarchy of needs, and have an opportunity to give without risking their means of meeting their own needs due to the "loss" incurred, or, on the contrary, the social status of masses only allows for a steadily low level of meeting their needs, and this gives large ground for mutual empathy.

The starting point for mechanisms leading

up to cooperative transactions is cooperation, emphatically among institutions representing the two fundamental mechanisms, but often involving ethical coordination, too. The need for cooperation is based on the recognition that the fundamental mechanisms may much rather be complementary to each other in a number of fields than simply replace each other. For instance, the PPP system cited above as an example, incorporates the financial muscle and flexibility of market actors, as well as the long-term stabilizing effect of bureaucratic coordination.

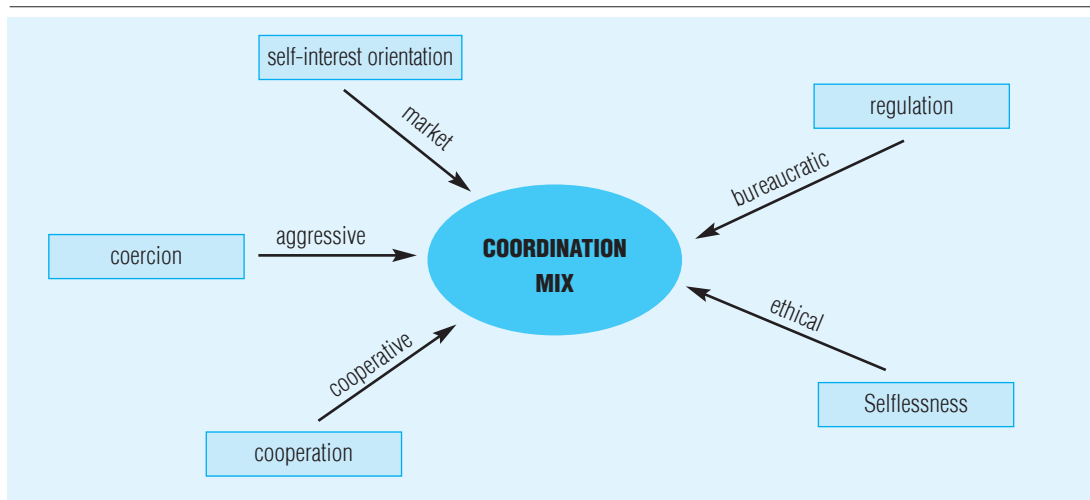
Finally, the basic motif in aggressive coordination is coercion, which operates in two directions. On the one hand, this is the means used by the stronger party against the weaker one, to force them to do what and how they are being persuaded to. On the other hand, aggressive coordination defiantly fails to meet the operating conditions of the other coordination mechanisms (for example, corruption in the business sector, tax evasion to public administration, i.e. bureaucratic coordination). In such cases, they force others to bear the consequences of the social damage resulting from their conduct. The motif of coercion is also represented in the deterrence that inspires the other actors of society to seek to apply the other coordination mechanisms efficiently. As we know, aggressive coordination mostly fills the potential coordination vacuum emerging with the other mechanisms present.

The coordination mix that influences the operation of the whole society is summarised in *Chart 1*.

It is apparent that each element of the coordination mix appears in each society. The proportion of these in operating the whole society, or, the modifications of "pure" forms in the course of application is deeply characteristic of a given society. In the continuation, we review the dynamics of these factors in the recent operation of Hungarian society, and the

Chart 1

COMPONENTS OF THE SOCIAL COORDINATION MIX



expected dynamics for the near future. We are going to see that the shadows of the past are still hovering above us; even the present tendencies cannot be understood without discussing these, and neither will we be able to carry out efficient modifications in the future.

COORDINATION MECHANISMS AND THE HUNGARIAN SOCIO-ECONOMIC DEVELOPMENT

In the continuation, we are going to discuss the forms of coordination mechanisms appearing in Hungary, regarding the era of socialist regime as a starting point; then we are addressing the transition and the current situation and challenges. We are going to see that change or modification is not only a question of intention, and is only feasible through conscious consideration of the features characteristic of the earlier period. A number of elements are present in the system that only lend themselves to integral modification, which restricts the opportunities of political voluntarism, or, should these restrictions not be taken into account, serious distortions would result.

Coordination mechanisms in the socialist era

For simplicity's sake, I will use the term “socialism” the forty years between 1949 and 1989–1990, i.e. “the year of striking political changes” and the apparent crash of the system, the beginning of the new regime. These forty years were by far not homogeneous in terms of the applied proportions within the coordination mix; the dynamics of declared and actual proportions of social coordination mechanisms would deserve a detailed analysis. At this point, we only give an across-the-board overview of this era, primarily focussing on post-effects.

The declared and unconcealed focal point was bureaucratic coordination throughout the era. In a system built on a know-all centre and centralised decision-making, a paternalist state apparatus was in operation, which had a controlling influence on practically every corner of the society and the economy. (The issue of the relationship between the state and the party is not detailed here; however, it is important to note to contribute to our topic that bureaucratic coordination and thus the process of public administration, too had a dual structure as a crucial element, built on cooperation

between the state apparatus and the state party under changing rules). Aggressive elements, although showing a decreasing tendency of intensity, had been present all through in this coordination ever since the beginning; more powerfully in the fifties or after the revolution, but virtually up to the last moment in stifling the opposition or in terms of the main courses of controlling the economy (in the responses given to questions of “what is permitted?”, and in hampering private initiative).

In such a situation, the elements of market coordination were difficult to enforce. Their absence began to be missed from the system at an early point, and this is why market-like elements were started to be introduced one after the other. (We are referring to household farming permitted as the first initiative to this effect, but this is also where production sidelines in producers' cooperatives belonged in their time, later followed by work team associations and work team associations within a corporation, multiple amendments to the business corporation act or the establishment of a two-tier banking system.) These elements, however, did not alter the basic character of the system, although their impact was certainly important on the fact that Hungary arrived at the threshold of adopting market economy relatively well prepared.

Little space was available to representing ethical coordination, too. The relevant traditional institutions (charity organisation, churches, civil organisations) were pushed to the background or were outright banned; let us keep in mind that the association act, even with serious restrictions, was not effected until 1986. Certainly, there were overtly ethical elements associated with the “official” bureaucratic coordination (given that the thought of equality was a fundamental motif in the officially announced ideology of the regime), these, however, were mostly represented in a distorted form, burdened with serious contra-

dictions between the declared principles and the actual operation. It is hardly argued though that in a number of fields of the public sector (accordingly, in the fields of free healthcare, education or holiday recreation) considerable groups of the society ended up in a situation more favourable compared to the era preceding WW II. The self-image of the paternalist state and the image transferred to the masses did emphasize the source of social “benefits” being the state.

Cooperative coordination was very weak or even actually non-existent. State paternalism “did not need” cooperative partners. The slight significance market coordination did not justify building bridges between the two sectors. Employee interests were represented by trade unions under direct control by the party; it would be difficult to speak of cooperation in the absence of equal parties.

With slight exaggeration, we could state that the whole society was public sector, although in a peculiar sense of the word. Regulation through bureaucratic coordination and the closely related motif of coercion using the tools of aggressive coordination were implemented within the public sector, while none or only distorted forms of the mechanisms for observing self-interest, selflessness and cooperation were in place. The chief tool for asserting self-interest was basically “to get round” bureaucratic (and at times aggressive) coordination, most people sought private solutions to exempt themselves from public problems, quasi omitting the elements of ethical and cooperative coordination. These private solutions were certainly varied, but they practically all shared a feature of bordering on or crossing the defined limits of aggressive coordination in a sense that they did not belong to the lawful sector (regarding the laws at the time). At the same time, these private solutions (corruption, pilfering public property or other damage done to the public) received extensive support or at

least understanding from society, and were an integral part of the regime. In a considerable portion of cases, these were directed at compensating precisely the shortcomings of the public sector. The people did not look upon public administration as home ground, were unsatisfied with public services, and this is how offences against the public sector were considered tolerable, or frequently even as bravado.

The impact of transition on coordination mechanisms

The circumstance that the socialist regime practically fell apart by the second half of the eighties resulted in the country living through the beginnings of the transition in a state of coordination chaos. Transition was facilitated by the fact that certain elements of market coordination awaited ready for the regime change, at the same time, many voiced their doubts about how useful it was from the aspect of the transition that these elements had most-ly been introduced by “sleight of hand”, as part of launching a simulated market economy. (We raised the question whether we agree that the measures adopted previously actually had to work the way they did, distorted as they were by the specific circumstances.) This question is unhistorical in the first place, so let us just accept that certain elements of market coordination were ready to be introduced at the time of the regime change. At the same time, a number of other elements (starting from laws to rules of conduct) had to be established at that point.

It is clearly seen today: serious problems stemmed from the fact that the regime changing elite (and the governments arising from their ranks) not having a vision for the country's future. Consequently, they hurry-scurried to reorganise the coordination mix: they adopted certain elements from the Anglo-

American, others from the German legal system, while also going back to the heritage of the Hungarian society and economy of the thirties at certain points, and, at other points, leaving elements inherited from socialism unchanged.

This article does not give a comprehensive view on the transition – we only focus on the changing mix of coordination mechanisms.

Market coordination rapidly gained ground. The privatisation process was fast and efficient (certainly acknowledging a large number of mistakes made, partly due to a lack of experience, partly the chaos in coordination which entirely distinguished it from the frequently mentioned privatisation process in Britain in the *Thatcher*-era, for instance). The new technology and leadership methods arriving with the significant capital influx reorganised the behaviour of the business sector. An important phenomenon of socialism, namely in-house unemployment was relatively soon eliminated, generating a new need to manage the unemployed. Basically, we maintain our opinion that we were right stating in 1997 in the summary of the 'Competing the world' research programme (Chikán, 1997), based on our research results: transition has been completed in the business sector, and the behaviour and operating rules of this sector are governed by social principles characteristic of developed market economies (this alone gives not information on efficiency).

The transformation of bureaucratic coordination was much less smooth (not as if market coordination did not incur grave sacrifices when gaining ground, as known). While politics operated in line with the principles of a democratic system practically ever since the beginning, public administration suffered the changes. The political and the technical apparatus were separated right from the start, there were no common intentions, not even a common language at many places, and the unilateral dominance of politics had even strengthened

compared to the late eighties. It resulted in a less professional political branch of the public sector, and a less certain technical branch. This led to the consequence that the bureaucratic and market coordination had been torn up and viewing each other's activity with considerable distrust. The loopholes and white spots necessarily brought about from time to time in the legislation boom were also followed by reinforced elements of aggressive coordination, as a rule (doubtful measures of privatisation, "pilfering", going round bad or deficient laws). As a result of these phenomena, the masses unable to comprehend the processes and regularly losing at least temporarily on the numerous transformations, had been turned against market coordination, cherishing nostalgia for being provided for by the state. A positive development was, at the same time, that the institutional system of parliamentary democracy and market economy had been established. This process was weakened by the fact that the institutional and operating procedures, such as the structure of ministries, were reorganised on each change of government in a large number of places, built on deemed or actual political interests instead of the internal correspondences of the specific area.

The regime change also called ethical coordination to life. The traditional forms and organisations of social charity returned, which, certainly, often appeared to be the products of the same regime change that generated the problems they cured. The civil sector, which was awakening in the second half of the eighties, reached a peculiar position with the regime change. Their chief demands were met (democracy, rule of law, market economy), still they – principally the intelligentsia – did not have resolute concepts, similarly to politicians, on the issue of "what next", neither in terms of reorganising the country, nor their own positions. The participants of the civil movements of the eighties were divided: one half permanently

passed into the political sector, while the rest (perhaps after a short detour in politics) either retired from public life, or took up a passive role in politics. The main reason for passivity was that this group had mostly got disillusioned, and no more intend to get involved with a politicised and polarised public life.

The forms and tools of coordinative coordination were formulated relatively late and in an incomplete form. As we have mentioned above, bureaucratic and market coordination had been split up at an early point, and the resulting mutual distrust severely hampered cooperation. This was complemented by a certain kind of fiscal compulsion operating within economic control and management (apart from a short period), which regularly resulted in measures disadvantageous for the real sector. Fiscal compulsion was brought about by the political dominance also referenced above, which was the underlying force for political rationality to overwrite the requirements of economic rationality on a regular basis. No wonder, then, that a distance greater than necessary in principle opened up between the two sectors, which acted against cooperation.

In addition to more uncertainty and a lower standard of public administration, we must also address the contradictory situation of public services. The regime change eliminated the uniform elementary and secondary schooling system. This, we believe, was a serious mistake, although others may think different. The quantitative deficit was eliminated in higher education (raising Hungary from the tail end to the leaders in Europe, in terms of the ratio of participants in higher education), and, with the same movement of hand, created qualitative deficit (no resources were provided for the growth in number). Healthcare services were also left to deteriorate, and excessive inconsistency was seen in the issues of a significant pension reform – at the same time, even if slowly and at a high cost, the road network was

considerably improved (although a permanent decline of the railway network was tolerated in silence). On the whole, the population did not get what they expected from the transition to a market economy, the public administration sector still suffers from hectic spasms, is inefficient and even expensive.

The current situation and prospects of social coordination

What is the current coordination mix like, what can be expected, and where does the role of the public sector lie in it? These indeed are questions that call for further detailed analyses, which can be answered only by processing the daily factual materials relevant to the subordinated areas. Today, reform rhetoric is fairly strong on the government side, and total denial, mainly formulated in general terms, is seen on the side of the opposition. I have no assignment to assess here what the odds of the reform measures of the government hold, or, what would or could the opposition do differently, but I feel it necessary to summarise in the concluding chapter of this study what I think about the topic today, about its theoretical implications, as it is integral to those discussed above, and serves as a starting point for further research.

Let us go through the types of coordination mechanism discussed so far.

■ *Market coordination* operates properly in the business sector. Although I cannot accept the frequently voiced approach stating “all is good in the private sector, and all is bad in the public sector”, but the difference between the state of development in the two sectors is salient, and this justifies the working efficiency of market coordination. Today, we find the same curriculum and often even the same standard at business conferences (if no issues of macro-economy are addressed) as anywhere else in the developed world. (The same cannot be said about conferences on the public sector,

not even when viewed benevolently.) And not only in conference presentations (where reality is always represented in a slightly more attractive light, with us and elsewhere alike), but also in the day-to-day practice, we experience that the business sector is competitive: increased and restructuring exports indicate that the lag in terms of the country's competitiveness is not a result of developments in the business sphere. (Not as if all was in order, what is more, we lag behind in a number of areas – methodology of financial management, innovation skills and willingness to take risks. This lag, however, is not so much a cause but more a consequence of problems having arisen in other areas, such as politics and the public sector.) The whole of the market sector suffers the waves of politics reaching it through macro processes (from unexpected or even unlawful taxes through exchange rate regulations to the shortcomings of public services, such as vocational education), but survives, and no major reforms need to be introduced in the foreseeable future.

■ *Bureaucratic coordination* features major shortcomings. Irresponsible budgetary policy of the past years, reform politics losing trustworthiness (although slight changes are seen) and empty quarrels in the political sector shattered the illusions about expected processes cherished by the population and the business sector alike. The currently launched reform processes still need to stand the test of trustworthiness before lining up the forces of society behind it. Technical solutions are seen to maintain operability (EU funds represent great help in this respect), but hope is still slight to implement what each government has pinned on its banner since the regime change, namely to establish a small and efficient apparatus to implement bureaucratic coordination. It is important to emphasize that I agree with those who believe that the key issue is not the size but the efficiency of public administration. The scale and com-

plexity of government duties are increasing, it is (or would be) important to have a well-qualified and well-organised public administration, not least (as we will return to the issue later) for the sake of joining in global processes in an efficient manner. Other studies in our research programmes address this in more detail.

■ *Ethical coordination* is reinforced. In part it is forced: in order to carry out duties unfulfilled by the state, mainly in the social and education sector. The number and significance of social organisations relying on voluntarism (for example, professional organisations) is on the increase. I believe that civil organisations relying on voluntary cooperation will keep strengthening, if not for other reasons but to influence fields left unoccupied by bureaucratic coordination. Seeing the weakness of its own situation, the government itself seeks cooperation. This is manifest in announcing a social debate on the National Development Plan to the (not very happy) implementation of the PPP system.

It is, however, a problem (also) related to ethical coordination that citizen trust in both government and market coordination has considerably diminished. For reasons outlined above, they sense inefficient operation of the public sector, but do not trust either bureaucratic or market based reforms; accordingly, it will be much more difficult to render considerable changes in a society as sceptical as this. The situation is not promoted, either, by the fact that opposition between the two major political forces has now become chronic, considering that the majority of crucial reforms require at least a minimum of cooperation in specific issues.

Another hindering factor is that the elements of aggressive coordination (corruption, black economy, on the other side, bloody demonstrations, police measures) are gaining extensive ground. This does not only indicate a vacuum in coordination but also represents an

actual hindrance to eliminating this vacuum. These elements are very deeply rooted in Hungarian society, and represent a basic hindrance to reforms.

■ Strengthening of *cooperative coordination* is confirmed by the PPP projects launched. At the same time, these coordination mechanisms may gain new impetus in the course of preparation and implementation of the New Hungary Development Plan even if only within the limits allowed by the plan or the EU directive. These opportunities are still of cardinal significance from the aspect of development.

Studying coordination mechanisms leads to the fact that the Hungarian society and economy are actually in a reform compulsion now, and the government has sensed this compulsion. The question is what the government, the country's political elite and public administration can do in a medium

- where political forces cannot reach an agreement even in the fundamental issues,
- where the broad masses are rather against reforms,
- where, at the same time, neither equilibrium, nor growth can be achieved without a reform,

to implement the reforms ones that are badly needed precisely in the field of public services.

COORDINATION AND PUBLIC ADMINISTRATION IN THE GLOBAL ECONOMY

Social coordination mechanisms were created by specialisation and the distribution of labour. It is obvious, then, that with labour distribution extended and globalised, the call for coordination will also cross national borders, and become global. This phenomenon, as well as the social and economic impacts of globalisation are addressed in a number of studies also published in Hungarian. We underline the work of *Báger* (2006) as one of the most recent writ-

ings on the issues of reinterpreting the role assumed by the state. In this chapter, we are going to discuss the theoretical consequences of globalisation and expansion of labour distribution, then we formulate the conclusions we have reached concerning the relationship between public administration and globalisation, both in general terms and in terms of today's Hungarian economy.

Globalisation and the coordination mechanisms

Let us use the logic behind the article by *Chikán* (2002) and the EU Commission document (1995) to investigate why the global economy develops, and why we are in the process of economic globalisation up to the neck. Capital, which is the immanent prime mover of economic activity, constantly pursues to be positioned in an optimum way among potential investments (which, in line with the basic laws of economy, is achieved if each unit of it is equally efficient). For this reason, high mobility is needed to adapt to ever changing conditions. All that stands in the way of this mobility will be attempted to be eliminated, including national borders. This raises the necessity of having cross-border coordination mechanisms in place, largely on the same theoretical bases that national coordination is built. Each of the (previously discussed) coordination mechanisms has an international counterpart.

The issue of worldwide coordination was built on the logic of bureaucratic coordination up until recent times: the main bearers of this were nation-states since the 19th century, which, order to extend their own logic relying on political reason, established international organisations similarly built on political reason, and performed coordination activity within their competence. Certainly, this bureaucratic/political logic also vastly represented market

and economic aspects, but as external factors to be considered. Market coordination growing international, and ultimately global means that the logic behind the world and the coordination of global affairs are doubled. The main character in the activity building on nation-states and bureaucratic coordination is the politician aiming at maximising votes – whose logic for operation is basically different from that of the main character in the other branch, i.e. market coordination, the business person aiming at maximising profit, and who, collectively, attempt to direct the operation of society, relying on economic and business reason (with multi- and transnational companies and networks of companies as their organisational backgrounds).

This duality determines the way the world goes round today. The tendencies of development are still unexplored, this phenomenon being fairly new on a historical scale. What is certain, however, is that the dominance of politics (or bureaucratic coordination) seen for centuries in the field of handling international affairs has been shaken, it would be hard to tell which of the two coordination mechanisms lead the world these days.

Whether this dual logic is directing the development of mankind in the right direction is an open question today. One thing is for sure: we cannot be too proud of the logic of nation-states and the bureaucratic coordination stemming from this, which dominated the world in the last 150–200 years through an ever more sophisticated institutional system. A great deal of good has been done under the banner and in the framework of this: schooling systems were established, culture and knowledge became international, the system of social and healthcare benefits was extended, and so on. But (with the current efficiency of the above mentioned beneficial developments challenged ever more) the same logic of nation-states provided grounds for wars to conquer territories, for various forms of suppressing

nationalities and minorities, and for restricting fundamental human rights. I do not believe that the headway of market coordination alone would neutralise or resolve the outlined problems, but channelling issues to a different plane in numerous aspects will result in seeking new answers at least.

■ Looking at our subject, the future of the *institutional system of globalisation* is extremely interesting. Certainly, the main characters are nation-states on one side, and multinational enterprises on the other. It is a peculiar and important circumstance that the institutions set up in order to globalise both bureaucratic and market coordination were established by nation-states, and along the lines of political logic. International foundation of multinational enterprises at the institutional level is still to be awaited. The kernel of contracting is currently available: company groups or strategic associations dominating an industry (or a region) have been set up. This, however, is certainly not the institutional system of market coordination; on the contrary, given that they (also) contain abundant elements aimed at restricting competition, they are precisely against the market. Coordination stemming from the activity of the business sector is not yet “invented” – it is doubtful whether it is feasible at all. In any case, interstate organisations established by states attempt to regulate today's market coordination; the author experienced this with all its dramatic effects at a WTO conference held in December 1999 in Seattle, and at the series of preparatory discussions, in which he had the opportunity to participate as an active contributor. But also IMF and the World Bank, intended to influence the monetary regulation (and, in a sense, also fiscal policies) of the world economy, operate much more along the lines of political than economic logic, not to mention the economic organisations of the UN. One need not be too brave to state that these organisations do not represent

an adequate framework to reconcile the contradictions of political and economic logic – it is clearly reflected in their increasingly obvious operating breakdowns.

■ The *international organisations* that help managers meet in person play a peculiar role, but may do even more so in the future. An example of formal framework could be international professional organisations, which not only exchange views on professional, ethical or organisational issues of operation in certain fields but, directly or indirectly, also play a normative role. Our experience suggests that these work their way to regulating business life at a rapid pace relative to a historic scale. These organisations do not directly pass business or regulatory decisions, but the great cooperation skills of their members, the few direct opportunities for conflicts and their expertise accumulated and activated represent a considerable force to formulate their behaviour.

■ A crucial element in formulating coordination is that *institutions of the civil sector* come into sight. These institutions are equally dissatisfied with both types of coordination (market and bureaucratic), i.e. the market and the role of the state – multinational enterprises and the political state, if you like. These organisations feature extremely heterogeneous structures, accommodating representatives of various groups supporting various views, starting from environmental protection through aiding the poor and protecting interests in a trade union fashion to hazy groups of intellectuals. Intensifying activity and globalisation of these has been brought about in the past one or two decades, and they undoubtedly add new colours to handling the issues of economic coordination. The referenced “battle of Seattle” was the first major clash between the organisations of global regulation and civil organisations grown to reach global importance, which was soon followed by a clash in Davos, then, most recently in Prague. Given that the

demonstrations in Seattle actually prevented the WTO conference from being started, we spent a major part of the first day talking to other members of the Hungarian delegation and the demonstrators. Based on what we experienced, we can say that the participants of the “clash” formulated sensible thoughts on their demands on a rather wide scale, some demanding responsibility for the damage caused by clearfelling Canadian woods, others the resolution of human right problems in China – what they had in common was that they did not seem to be very familiar with the WTO, which they protested against. The roots of global organisational cooperation among various groups are entirely clear and sensible, however, a common goal is not set, or at least for the time being, which could be represented in favour of something, not only against (the current institutional system). Given, however, that the civil sector is viewed as the bearer of ethical coordination from many aspects (and in my opinion we are not alone with our view), we regard this phenomenon as highly remarkable, and believe that the role of these organisations will increase in global coordination.

New impacts of today's global development

In his study, *Kobrin* (2003) poses a question whether the new developments in globalisation lead to obsolescence of the nation-state. He describes five major trends in modern-day globalisation, related to the question posed, which, in my opinion, represents the number one key issue in the development of public administration.

Deepening integration

The most fundamental representation of internationalisation can be witnessed in production: the national character is becoming increasingly

insignificant in the production activities of multinational enterprises, what is more, in case of numerous MNEs (multinational enterprises), it is practically impossible to tell where products, or certain parts of them originate from. (It needs to be added that it goes not only for production in the traditional sense – manufacturing physical goods – but for a major part of services, too. Let us consider, for example, financial, consulting, IT and travel services.) In this way, the influence of the nation-state on the processes of production and services is mere illusion, and this results in political and economic emphasis being transferred from commerce to investments, i.e. from state efforts to regulate the circulation of goods to regulating the general economic environment, whereas, in terms of assessment of national competitiveness from comparative advantages (and, accordingly, from resource-based competitiveness, even if meant in the broadest of senses) to investment-based competitiveness (not to mention innovation-based competitiveness here, which today has become a basic factor in acceptable international competitiveness).

It was more or less possible to control the application of resources in a national framework; however, the sovereignty of the state in formulating the regulatory environment is rather limited. One may revolt against the idea that multinational enterprises “wriggle out of” the scope of state regulation, but the truth is that they have never been within: they have been at least equal negotiating partners to state institutions in formulating the local rules of their own operation.

Technological development

In case of numerous sectors (telecommunications, biotechnology, pharmaceuticals, electronics, space industry) not even the largest of national markets are capable of ensuring a return on vast R&D expenditures. Companies operating in these sectors need international

(what is more, global) markets in any case to secure a volume and diversification that ensure return. Accordingly, national markets can no more go on playing the role of the basic economic unit of state operation as previously, and cannot be used as the means of state influence over economic actors. Breaking global markets down to “national” units will lose considerable significance (investors, for instance, think in terms of regional units on building their portfolios, and selection of a specific country within that is secondary for them). It is not a case of national markets “combining” across borders, much rather of fusion or merger. The borders of “markets” and “states” as conceived by MNEs do not coincide.

It is also a concomitant of the above that nation-states increasingly depend on MNEs in terms of technological development. The countries that make strong efforts to restrict the role of multinationals, gather up basic disadvantages of competitiveness.

Networks and associations

Labour distribution, which had become increasingly complicated due to technological development, gave rise to the necessity to contemplate networks, where individual elements of the network may not even be connected through ownership, in order to complement or occasionally supersede the traditional hierarchical organisation of MNEs. This resulted in a complex network of economic transactions, where bilateral economic relations (buyer and seller, manufacturer and supplier) were replaced by a diverse system of mutual dependencies. This modified the relationship between MNEs and the governments of nation-states: traditional multinational enterprises used to have an identifiable centre, which certainly operated in a given country; whereas today finding such a centre poses serious difficulties or is outright impossible in case of recently formulated strategic associations and knowledge-

based networks. Owners often do not have a significant role in establishing and operating relationships, even more so because they keep changing in a flexible way, and often operate in a project-like fashion. Which nation-state regulates such networks in case of numerous affected units situated in numerous different states? Geographical considerations cannot be involved in the scope of national legislation and application of law, and it rarely represents a critical element for networks, i.e. the issue of selecting a territory of a state to operate. This is exclusively determined by the particular MNE's economic considerations: the economic and legal environment provided by a nation-state is either advantageous for them, and in that case they settle there, or not, and they move over. A number of multinational enterprises today actually operate as virtual companies (at least partially), as an organiser to a large number of subcontractors it is unclear how effectively regulation of any nation-state can affect the behaviour of such a diverse network, even in an area traditionally influenced by national legislation, such as working conditions or environmental protection.

Multinational enterprises, other international actors and the global civil society

International organisations have been mushrooming recently and international companies are only one type of these, even if one of fundamental importance. In a portion of these international organisations (which can be considered even today as fundamental) the leading role is played by nation-states and their governments, starting from the UN and its specialised organisations to OPEC or OECD. Even the traditional framework accommodated international organisations (for example, world churches, prominently) which were not under any state's influence or only to a very limited extent. With the internet and the worldwide web available, the number and significance of

formal and informal supranational organisations have grown at a dramatic speed. Amnesty International or Greenpeace lend themselves as good examples of formal organisations, while sets of relationships stemming from various theories and approaches organised into informal networks – let us just consider terrorist networks, cybersex fans, bookmakers or art collectors – are almost incalculable. It is extremely important to contemplate that these relationships often also represent economic forms, and new challenges to the regulatory efforts of states, on the one hand, and that MNEs only constitute a portion of relatively independent international organisations from this point of view (even if they are probably regarded as the most important ones). The diversity of international relationship matrixes keeps on softening the significance of national borders, the distinction between “national” and “international”, and the influence of the state's role even from a mere economic aspect.

Multinational enterprises and cyberspace

MNEs increasingly benefit from the potentials of the worldwide web, even if electronic commerce and business gain ground at a slower pace than projected on their first appearance. Electronic business further restricts the possibility of national influence. As long as software was exchanged on disks or in manuals, their trade was possible to trace – it is virtually impossible to do so with downloads from the Internet. As long as programmers left for Germany to manufacture software, it was possible to follow. When, however, software is produced in Hungary to be run on a program located in Germany, where was economic value created? In which country was the transaction performed? How can this transaction be regulated, whether under German or Hungarian laws? How are taxation and the resulting revenue supposed to be catered for? Will any international organisation know at all this transaction has been performed?

These questions are very difficult to answer; if we try and channel it to stay within national limits, it will necessarily restrict efficiency, which will automatically result in a requirement to get around regulation.

The world-wide web brings about insignificance of physical location. MNEs can no longer be threatened by restrictions of location or physical appearance. The geographical and regulatory locations are divided: no necessary connection exists between a website and a physical site. In cases, this raises the question whether national law is still relevant to particular issues.

Conclusions: multinational enterprises and nation-states

Important conclusions can be drawn from the line of thought formulated in the wake of Kobrin (2003) and commented by the author of this article, concerning the relations of multinational enterprises and nation-states, or their respective governments.

A key conclusion is that, with globalisation extended and MNEs gaining ground, the role of nation-states will not be eliminated, but fundamentally altered. Globalisation weakens territorial sovereignty to an extent that rules out the previous primacy of legislation and application of law on a geographical basis. States and their governments are no longer the key actors in the economy as they were in the 19th and 20th centuries, only, certainly crucial, sources of resources and power. Globalisation has altered the rules of producing goods and services, and, accordingly, the regulation of operation and the mechanisms for distributing revenues, too. Organisations of the world economy cannot be controlled by national governments, nor their international organisations using traditional means or any other derivatives thereof. Economic and political spaces are part-

ed. Markets are more extended than countries, and the national character of economic systems and actors has been dramatically diminished. In international politics, nation-states have lost independence, and MNEs and other international organisations have achieved equal ranks with nation-states in terms of controlling world economy and even economies operating in the territories of states.

Considerable interest is attached to politics accepting this phenomenon, and reorganise its ranks accordingly. Those countries will be successful where reorganisation is completed more rapidly. It is always hard to give up power, however, it is even harder to exercise pseudo-power, as it results in distortions, loss of efficiency, reduced competitiveness, and, ultimately, in falling behind.

Political consideration of the new world trend necessarily leads to developing a new role for public administration. The longer political considerations hinder reorganisations stemming from global economic development in the field of public administration, the more substantial the resulting damage will be. It seems as if reflection on the processes described above was missing from politics today in Hungary. Reorganisation of the government level can be connected to petty party political and personal interests, and not to global challenges. Regionality as a local representation of global economy has come to the foreground recently, but it will be embodied in distorted forms until the entire public administration is driven by global considerations instead of local political ones (related to specific party political arrangements). The role of public administration is not simply diminishing but also transforming, and will adopt different emphases, face more complicated issues, lose its monopolistic position in numerous respects, and need more coordinating agreements. It is certainly expedient to support this adaptation to the new situation by extended analyses.

Globalisation and public administration

In this era of globalisation, national public administration faces a new situation in a number of aspects; some of these strengthen, and others weaken its position and influence.

It necessarily reinforces the position of national public administration that it fulfils a crucial mediation role in the relation between the national organisations of the specific country and the institutions catering for international coordination in the outlined system of global coordination (where market coordination is also implemented by organisations stemming from the participation of nation-states). Efficient representation of interests in global organisation assumes persons and institutions that are strong in terms of profession, committed to their respective nations and, at the same time capable of comprehending global processes, also holding strong positions within national public administration. (This is why it is so detrimental that the management / organisational system of Hungarian foreign economy and R & D has kept being reorganised since the regime change in two key areas, where a harmony of national and global coordination would be essential.) In this respect, continuity in national representation is vital – international organisations cannot easily understand vibrations induced by local (national) political skirmishes; it is no background to efficient representation of national interests. It is natural, at the same time, that efficient representation of interests requires having public administration acting firmly inside, supported by an institutional system capable of transmitting and breaking down impulses (often itemised rules, but often premonitions only) received from international organisations.

Still, a number of factors weaken the role of public administration. Its influence is undoubtedly diminished by the activities of multina-

tional enterprises gaining considerable power in market coordination on the one hand (they are often able to exert more influence on leading politicians and their decisions than their own technical apparatus), and, on the other hand, their scope of authority to make decisions may be reduced due to rules laid down by international organisations. (The role of the technical apparatus for foreign economy is also undoubtedly diminished by the fact that they are only allowed to directly negotiate with international organisations and this goes for WTO, too, through the EU representative, instead of the Hungarian representative.)

On the whole, national public administration plays a fundamental role also in the era of global coordination, as we see it. Nation-states are not expected to perish within an unforeseeable historical period; at that point, however, it is (would be) essential to articulate national interest, developing a strategy and represent it efficiently in front of global organisations and the domestic institutional system.

Global coordination and the Hungarian public administration: two highlights

In the continuation, we are going to discuss the two sets of issues that in my opinion are of key importance for Hungary in respect of the field of globalisation – public administration – competitiveness.

It is hardly questionable that our accession to the European Union represents an outstanding event in the history of Hungary; it may be regarded as the most crucial factor that has affected the Hungarian society and economy since the regime change. Accession certainly affects our joining in global coordination just as well as coordination within national limits.

One of the key issues in the whole global coordination is the relationship of nation-

states and multinational enterprises. It is particularly important for transitional countries, such as Hungary – a relatively rapid economic transition was largely facilitated by the influx of foreign capital and the emergence of MNEs. It is partly due to the specific relationships of transition (and I principally mean privatisation and foreign capital influx here) that MNEs play a key role in the Hungarian economy (consider areas such as export or innovation). It is reasonable, then, to investigate the relationship of national public administration and multinational enterprises.

THE IMPACT OF EU MEMBERSHIP ON PUBLIC ADMINISTRATION FROM THE ASPECT OF ECONOMIC COMPETITIVENESS

The EU's public administration and its implications for Hungary have abundant literature. This is why (and also considering the professional limits of the author) theoretical issues are not addressed under this research programme, and we only review the specific factors in the relationship of the EU and public administration, which are the most significant to affect economic competitiveness.

Based on the literature read and personal experience, we have identified six areas of public administration that have a considerable impact on economic competitiveness in the light of EU membership. Let us go through the six factors now.

Developing a national strategy

It is seen as the most comprehensive problem that no established institutional system and practice are available for strategy-making for the national economy. In the period of transition, when the institutional system was reorganised around 1990, we threw the baby out with the bath water: with the dissolution of the National

Planning Commission, the central institution in charge of controlling the economy was also eliminated. At the same time, the sudden change in economic policy almost necessarily brought about a dominance of short-term financial and political considerations, which, as a rule, overwrites even deliberation of all longer-term strategic considerations, not to speak about opportunities of enforcing them. There are economic concepts, but there is no strategy, and both the reasons and the consequences are seen in the economy and economic control.

The absence of a strategic institutional system is easy to observe in the process of elaborating the National Development Plan, as well in the relevant organisational framework, which results in (among others) a loss of certainty of the public administration apparatus and its concurrent exposure to daily politics.

Reorganisations in central governance

Since the regime change, each government brought with it rather considerable changes to the structure of governance on inauguration, and also multiple times during their mandate. The parties in the government are tossing around important areas such as the R & D system, foreign economic relations or the control of human resource management. These reorganisations more often have short-term political or personal interests in the background than actual conceptual changes. From the aspect of the whole public administration, considerable damage has been done to our incorporation in the European Union through the resulting organisational and personal uncertainty, which has detrimental effects passing down the entire public administration.

Reforms in public finance and the public sector

This topic is addressed so frequently nowadays that we are not going to discuss it here. It is

reasonable, however, to focus further research on to what extent the developing institutional system and operating mechanisms assist enforcement of the European Union's economic and cohesion principles. Cancelled reforms and conceptual uncertainties have already caused serious damage to the country, it would not be wise from the country's aspect to plant an institutional system that does not comply with the tendencies of development seen in the EU.

The system of foreign relations

I believe that *successful activity in the EU requires much more active and concept-minded foreign policy and foreign economic activity*. This also has numerous implications for public administration and the institutional system. We have referred to managing the affairs of foreign economy; we are mentioning management of the affairs of Hungarians living in the neighbouring countries as a corner stone, which, as we are aware, burdens precisely the relationship with the neighbouring countries that could be potential allies to us in numerous issues within the EU. The absence of a stable institutional system is not the most fundamental fault, but it is still considerable.

The role of regions

In this question, it seems as if we did not want to understand the EU trends. The issue was formally resolved by setting up planning/statistical regions, but the necessary content measures have not been taken. Today, distribution and regional application of government funds are seen as a source of tension, with unforeseeable economic and political consequences for the time being. This is one of the issues in public administration that fundamentally affect national competitiveness. It is clear today that we incur substantial losses through it as victims of party political fights, in battles that are understandable in terms of politics,

but in no way serve the economic interests of the country.

Compliance with EU rules

It has been known for ages that we are a country keen on tricks. Well, it was part of official politics in the eighties to intend to “fool” the World Bank with false data (being successful was not so much due to our skills but the World Bank objectives: they did want to believe what we told them), and now we are experimenting with the European Union. Airbrushing the budget, and certain peculiar PPP projects, the circumstances of constructing motorways or a range of background institutions outsourced from ministries makes unfavourable impressions and induces distrust against the system of public administration in Hungary, at almost all levels of the European Union's management and administrative apparatus. If we look at the EU's common principles of public administration (Jenei, 2005), we find hardly any not violated by the Hungarian public administration.

Multinational enterprises (MNE) and nation-states: theoretical problems and their representation in Hungary

Kobrin (2003) identifies four interrelated groups of problems that have burdened the relationship of multinational enterprises and nation-states or of the nation-state system ever since the former emerged.

① Distribution of costs and benefits related to the activities of multinational enterprises. This presents a problem equally to each nation-state and their relationship.

② Asymmetric scope of authority between the territorial nature of legislation and application of law by the state and the international network of MNEs and their subsidiaries.

③ Legal conflicts, overlaps and uncovered fields, the problem of extraterritoriality.

④ State supervision of the economy and the economic actors, decreasing influence.

We make the following comments on these points.

① This is an evergreen topic, with considerable emotional content. A number of factors from political interest to simple ignorance lead a significant portion of the domestic public opinion to feeling that MNEs do harm to national economies, “take money out”. This approach has considerably influenced the (legal, economic, social) reception and handling of MNEs in transitional economies, and so it has also been crucial in Hungary. Certainly, there are fundamentally important issues in the actual practice: MNEs play a key role in formulating and regrouping resources and abilities (and, related to these, power and influence). Giving correct answers to these questions can be considerably assisted by transparent and clear operation of public administration in a system following a stable approach (in addition to the opinion leader intellectuals), which may achieve tangible results in favourably influencing MNEs' behaviour to suit national considerations on the one hand, and could noticeably influence the general feeling on the other hand. Undoubtedly, we did not achieve the hoped privatisations revenues (mainly due to our lack of experience) on multiple occasions, or we did not manage to bend the conditions of certain foreign investments to suit us. Still, it is hard to doubt on objective and professional grounds that mainly in the times directly following the transition, the technology and knowledge transfer implemented by MNEs was indispensable for developing market economy and stopping transformation decline. The role of public administration here was to set transparent rules and cater for consistent implementation.

② This problem is often discussed in the international literature, and it has also been mentioned concerning coordination mecha-

nisms. The fact that the key role in the whole economy and particularly in the event of the business sector is played by multinational enterprises and, at the same time, the regulation of global economy is held by nation-states or organisations of nation-states, bears immanent contradiction: the different logics of the political and economic sectors clash. MNEs, generally firmly centralised and consequently well-defined, also holding supranational interests, are adapted to a world order (when they are) that stems from nation-state logic, and from power relations, negotiations and compromises among nation states. Nations-states cannot challenge the global strategy of individual MNEs (they have neither the legal grounds nor the economic means to do so) and MNEs are forced to squeeze their local activity in the bed of Procrustes laid by the nation-state on the territory of which they intend to operate an economic unit. The resolution of conflicts arising from this asymmetry is prevented as early as at the point of a fundamentally different set of objectives and information base. In this way, neither party can carry out their power-related intentions to their fullest in spite of the other's will. Many word this conflict as the conflict of archaic political and modern business structures. There is undoubtedly something to it, but we should not forget the renewed role of the nation-state we have addressed earlier. This is an actual conflict, to which a different solution (in terms of format and contents) is found almost on a case-by-case basis. The domestic public administration is certainly not free from the consequences of this conflict, either; we often find it difficult to handle them. This is how it is possible that we have been unable to respond to the fact that the Hungarian central budget has been losing considerable revenues because, due to the unfavourable domestic conditions and rules of customs clearance, EU customs clearance is not performed here but in one of the neighbouring countries. Another example to be

mentioned is that as a result of our slow system of legal remedy or certain environmental measures, selected international economic events in the international network of MNEs do not take place here but they are taken elsewhere, which causes a loss of revenue.

At an early date, well ahead of the acute emergence of the problem, *Ball* (1968) suggested creating an international corporation law to be managed by one of the international organisations. Creation of such a law has not come any closer in the forty years elapsed since the article was published, although the WTO was established in the meantime, for instance, which (considering the contents of its mission) could in principle manage such an international agreement.

③ Any local subsidiary associated with an MNE has dual identity: on the one hand, it is (and its employees are) subject to the law of the country on the territory of which it operates. On the other hand, it is also subject to the instructions issued in the (generally fairly strong) corporate centre. This may give rise to numerous problems, even at a personal level: for example, the consequences affecting the company employees need to be agreed in terms of taxation and regulation. At this point, for example, a state (indirectly) “meddles with” the internal affairs of another one, which needs to be regulated through agreement between the state organisations of the two (more) countries. A special problem is competition regulation, for example, for which dedicated institutional systems are set up to handle. It is an empirical fact that domestic companies sometimes cannot or will not understand that competition is regulated in a uniform EU system, and they protest against the resulting consequences.

④ The real reason from the aspect of reducing the nation-state's control and influence is the distribution of labour and interdependence evolved among states in the course of capital flow and commerce – MNEs only provided the

form of movement to this. At the same time, they have become bearers and symbols of reducing the influence of the nation-state, and of implementing an independent and economic policy of self-interest. This often acutely conflicted with the popular idea of a “welfare state”, under the banner of which as it is known the proportion of revenues centralised by the state grew in most countries in the world. A necessary conflict arose between the nation-state government intent on implementing its political interests and the managements of MNEs fighting for global business goals. And, as the dependency of the state on the business sector grew on historical grounds (or, to put it in a positive way, the extent the states leant on MNEs), this conflict may often be very acute.

Certainly, it is not only MNEs restricting nation-state sovereignty. Every time a government signs an international treaty or joins an international organisation, it is forced to make a compromise. The difference is that in such cases the partners feature a similar (political) logic, as opposed to MNEs, whose business logic is fundamentally different in terms of orientation.

Still it was not clear that the MNEs gaining ground actually entailed reduced state sovereignty. The multinational enterprises need to enter the nation-state's economy, territory and legal environment, which, in return, may actually reinforce the role and the significance of the nation-state.

CONCLUDING REMARKS AND HIGHLIGHTS

What has been summarised in this study is rather the first word than a settled research result concerning the relationship of social coordination and the public sector. We have experienced that this relationship at least in economic respects is a fairly unexplored area.

We believe that we have managed to confirm that the approach is promising, and it may have lead us to a few important results already.

■ *A crucial task is to clarify the relationship of the public sector- and particularly public administration within that – with each coordination mechanism.* In this respect, we have made the first steps in this study, and we highlight the intermediary role public administration (may) play in harmonising bureaucratic and market coordination. This approach may be attached fundamental importance in handling social reform processes in the system, the absence of which is a key risk factor in the success of current reforms.

■ Substantial research problems and practical consequences may be derived from the statement that the chief depositary of implementing bureaucratic coordination at the level of the nation-state is public administration, which, at the same time, also intermediated between international and national bureaucratic coordination. Associated with those discussed in the previous point, public administration may be assigned an intermediary role that may serve as a point of Archimedes to control reform processes. Such construal of public administration facilitates modelling public administration-centred national coordination mechanisms, which is expected to yield exciting results.

■ Extending the theoretical basis of coordination mechanisms to public service providers leads to important findings concerning the characteristics of the politics – public administration – public services triangle. In this framework, a rich system of correlations is seen both in terms of theory and the current development in Hungary, for example concerning self-sufficiency, state paternalism and the relationship of civil organisations.

■ We consider it important to explore the historical aspects of this set of issues. It is a commonplace, of course, that without the past

the present cannot be understood, and the future cannot be influenced. It is reasonable, however, to deduce specifically where we should or can put the emphasis in terms of social-economic reforms, and it will shed different light on the weaknesses and opportunities of government activity, similarly to street riots.

■ The international literature only touches on the issue of global coordination today. In a small and open economy such as Hungary, the way coordination extends globally is a cardinal issue, as it is crucial in terms of our room for action. For developing a badly needed strategy for foreign economy (and the umbrella of comprehensive foreign affairs), an approach relying on international coordination mechanisms could be pretty productive. Such a strategy should in any case adapt to global trends.

■ The two highlights marked within the

issue of global coordination (relation to the EU and the multinational enterprises) direct attention to a number of key problems of the Hungarian social-economic development. Both can be deduced on a theoretical basis from the two basic principles of global coordination: the deepening of integration and the emergence of new actors/roles. The dual intermediary role of public administration between, firstly, the national and international, and, secondly, the bureaucratic and market coordination, as referenced above, is assigned a particular emphasis, and can be reasonably contrasted with half-raw approaches frequently arising on an emotional basis concerning the EU and the multinational enterprises, which can still have a considerable political impact.

Our research so far has revealed questions outnumbering answers – it is worth carrying on with it.

SOURCES OF REFERENCE

BALL, G. W. (1968): COSMOCORP: The Importance of Being Stateless, *The Atlantic Community Quarterly*, IV. (Summer), pp. 163–170

BÁGER, G. (2006): New features in the role of the state in the globalised world of the 21st century, Back to basics! Studies on the reform of the public finance system (Az állami szerepvállalás új vonásai a XXI. század globalizált világában, Vissza az alapokhoz! Tanulmányok a közpénzügyi rendszer reformjáról), Vigvári András (ed.), *Új Mandátum Publishing House (Új Mandátum Könyvkiadó)*

CHIKÁN, A. (1997): A report on the international competitiveness of the Hungarian corporate sector (Jelentés a magyar vállalati szféra nemzetközi versenyképességéről). “Competing the world” research programme (“Versenyben a világgal” kutatási program), *Corporate Economics Department of Budapest University of Economic Sciences (BKE Vállalatgazdaságtan Tanszék)*, October

CHIKÁN, A. (2002): Globalisation of the economy and difference of the civilisations (A gazdaság globalizációja és a civilizációk különbsége), *Hunga-*

rian Science (Magyar Tudomány), Number 6, pp. 730–737

Commission on Global Governance (1995): Our Global Neighborhood, *Oxford University Press, New York*

JENEI, GY. (2006): Common principles of public administration in the EU (Közös közigazgatási irányelvek az EU-ban), www.bke.hu/kkar/download/TSZ-KSZ/KozigazgatasIranyelvek_az_EU-ban.doc

KOBRIN, S. J. (2003): Sovereignty@Bay: Globalization, Multinational Enterprise, and the International Political System, In: Rugman, A. M. – Brewer, T.L. (2003): *The Oxford Handbook of International Business*, *Oxford University Press*, pp. 181–205

KORNAI, J. (1983): Bureaucratic and market coordination (Bürokratikus és piaci koordináció). *Economic Review (Közgazdasági Szemle)*, Number 9, pp. 1026–1038

KOVÁCS, Á. (2005): Competitiveness and public

finances, Alternatives for selecting action scenarios (Versenyképesség és államháztartás, Alternatívák forgatókönyv-választáshoz), *Public Finance Quarterly (Pénzügyi Szemle)*, consolidated issue, pp. 26–48

SMITH, A. (1776): An Inquiry into the Nature and Causes of the Wealth of Nations, Smith, A. (1992): A nemzetek gazdagsága, *Publishing House for Economics and Law (Közgazdasági és Jogi Könyvkiadó)*

LITERATURE

ALBALA, N. (2005): We the Peoples, Not the States, Global Policy Forum, www.globalpolicy.org/ngos/state/2005

BALÁZS, P. (2001): European unification and modernisation (Európai egyesülés és modernizáció), *Osiris Publishing House (Osiris Kiadó)*, Budapest, 353 pages

BÁGER, G. – ÖRLŐS, L. (2004): An innovative approach to the cooperation between the European Investment Bank and Hungary (Az Európai Beruházási Bank és Magyarország együttműködésének újszerű megközelítése), *European Mirror (Európai Tükör)*, Number 7, pp. 14–49

BEAUSANG, F. (2002): Democratising Global Governance: The Challenges of the World Social Forum, Management of Social Transformation (MOST), *UNESCO Discussion Paper 59*.

BONAGLIA, F. – DE MACEDO, J. B. – BUSSOLO, M. (2001): How Globalisation Improves Governance. OECD Development Centre, Working Paper no. 181., November

BROWN, L. D. – KHAGRAM, S. – MOORE, M. H. – FRUMKIN, P. (2000): Globalization, NGOs and Multi-Sectoral Relations, *Harvard University, The Kennedy School of Government, Working Paper No. 1*, July

BROWN, L. D. – KHAGRAM, S. – MOORE, M. H. – FRUMKIN, P. (2002): Globalization, NGOs and Multi-Sectoral Relations. *Journal of Marxism and Reality* 3(6), pp. 271–298

COGLIANESE, C. (2002): Is Satisfaction Success? Evaluating Public Participation in Regulatory Policymaking, *Harvard University, John F. Kennedy School of Government, Faculty Research Working Papers Series, RWP02–038, Cambridge, September*

COGLIANESE, C. – HEALEY, J. – KEATING, E. K. – MICHAEL, L. M. (2004): The Role of Government in Corporate Governance, *Harvard University, John F. Kennedy School of Government Working Paper Series, EWP 04–045, November*

FORRER, J. – KEE, J. – GABREL, S. (2006): Globalizing Governance and Public Accountability, *The George Washington University, Center for the Study of Globalization, Globalization Monograph Series*, <http://gstudynet.org/publications/monographs.php>

Governing Globalization Globalizing Governance, New Approaches to Global Problem Solving, Report of the *Helsinki Process on Globalization and Democracy*, Finnish Ministry for Foreign Affairs, www.helsinki.fi

GREVE, C. (2003): Public-Private Partnership in Scandinavia, In: *International Public Management Review*, Electronic Journal at <http://www.ipmr.net>, Vol. 4. Issue, 2

GURRIA, A. (2006): Managing globalisation and the role of the OECD, www.oecd.org

HEIMANS, J. (2002): Strengthening Participation in Public Expenditure Management: Policy Recommendations for Key Stakeholders, *OECD Development Centre, Policy Brief No. 22*.

KAMARCK, E. C. (2004): Government Innovation around the World, *Harvard University, Kennedy School of Government, Faculty Research Working Papers Series, RWP04–010, February*

KAPÁS, J. (2006): The Coordination Problems, the Market and the Firm. In: *New Perspectives on Political Economy*, Vol. 2. No. 1. pp. 13–35

MADSEN, P. (2004): Ethics and Policies Regulating Multinational Enterprise, *Carnegie Mellon University, J.J. Heinz School of Public Policy and Management*, www.spea.indiana.edu/tac/colloquia

MELESE, F. – BLANDIN, J. – O'KEEFE, S. (2004): A New Management for Government: Integrating Activity Based Costing, the Balanced Scorecard and Total Quality Management with the Planning, Programming and Budgeting System, In: *International Public Management Review*, electronic Journal at <http://www.ipmr.net>, Vol 5. Issue 2

Multinational Enterprises and Public Integrity: The Role of the OECD Guidelines, *Reproduced from the key information brochure prepared for the OECD Ministerial Meeting, May 2002*

PARKER, B. (2005): *Globalization and Business*, SAGE Publications, London etc.

PETERS, B. G. (2004): The Search for Coordination and Coherence in Public Policy: Return to the Center? web.fu-berlin.de/ffu/akumwelt/bc2004/download/peters_f.pdf

REHMAN, S. S. (2004): Competitiveness and Corporate Governance in the EU. *The George Washington University, Center for the Study of Globalization, CsGOP-04-31, www.gwu.edu/~gwscg*

REHMAN, S. S. – PERRY, F. V. (2005): Global Convergence of Corporate Governance Systems and Competitiveness, *The George Washington University, Center for the Study of Globalization, Occasional Paper Series, CSGOP-05-35, Washington*

RUGMAN, A. M. – VERBEKE, A. (2002): Multinational Enterprises and the Civil Society: A New Conceptual Framework, www.reformwatch.net/fixers/141.pdf

SALAMON, L. M. – SOKOLOWSKI, W. S. – LIST, R. (2003): Global Civil Society: An Overview, *The Johns Hopkins University, Institute for Policy Studies, Center for Civil Studies*

SELL, S. K. – PRAKASH, A. (2002): Globalization and Governance: Examining the Contest Between Business and NGO Agendas in Intellectual Property Rights, *The George Washington University, Center for the Study of Globalization, Occasional Paper Series, CSGOP-02-08, Washington, December 16*

TAVARES, A. T. (2002): Multinational Subsidiary Evolution and Public Policy: Two Tales from the European Periphery. *Journal of Industry, Competition and Trade* 2:3, pp. 195–213

The Social Dimension of Globalisation the EU's policy contribution on extending the benefits to all, *Commission of the European Communities, May 18, 2004, Brussels*

Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy (Third edition), *Geneva, International Labour Office, 2001*

TURC, A. (1997): Accountability in Public Organisations: Responsiveness to Political Authorities, Users and Market Forces, *OECD, Public Management Service*

WOLF, H. (2002): Globalization and the Convergence of Social Expenditure in the European Union, *The George Washington University, Center for the Study of Globalization, Occasional Paper Series, GSGOP-02-02, Washington, October 7*