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## *A few aspects of the relationship between the political and the economic sectors – the basis for minimum consensus*

According to wide-ranging international experience, the measures aimed at the rationalisation of the economy and the stabilisation of public finances imply such *decision-making (i.e. preparation, skills and adaptation) factors, as well as conditions of public trust, and even social traditions*, the *direct* financial consequences of which can hardly be presented. However, successful adaptation to the changes, and the sustainability of economic development are significantly influenced especially by these conditions.<sup>1</sup>

The extent to which the real restrictions are recognised and perceived, and whether there is a will to harmonise opportunities and endowments, i.e. *whether the political elite assumes liability for the enhancement of the effectiveness of the operation of the society and the economy*, depends on political groups having different motivations, target systems, interests, as well as value conveying, adaptation and interest harmonisation abilities. The realisation of the limitations of the development and adaptation path<sup>2</sup>, the quality of the determination and implementation of the possible objectives – the indirect performance presented in the responses to the challenges – materialise in the financial discipline, the results and mistakes, the performances of the real economy, as well as in the public finance processes.

Social and economic operations, and the public finance correlations can be found – as certain reflections – in the reports of the State Audit Office (SAO). At the same time, however, the SAO must also continuously adapt to the changing environment. So that its work be creditable and accepted, it must be able to accept and apply those new procedural and methodological, first of all strategic – we could say: institution missionary – requirements that characterise the current international practice. It is an increasing requirement in the developed world that the supreme state audit institutions should – fulfilling the direct error correction, prevention and sanctioning functions of the audits – *not “only” perform regularity, compliance and performance audits*, but should also venture to perform *risk analyses* regarding the factors jeopardising the fulfilment of the revenue and expenditure appropriations of public finances, and should foster *the optimisation of problem solving and management* through consultations. In other words, they should be able to support the realisation of the content objectives of the audit, i.e. the safe management of public finances. Compliance with the new commitments assumes the existence of democracy, since it implies the tolerant acceptance of professional assistance, or rather cooperation, the critical elements of which (may) affect the

issues of the cooperation and performance of the political and economic elites. Today, such commitments of the SAO are not only tolerated, but rather encouraged. This is how the SAO study, summarising the results of the first phase of the research carried out in conjunction with the Institute of Corporate Economics at the Budapest Corvinus University (SAO RDI, 2007) was born. This article is based on that study's second chapter, which was written by the SAO. In order to make the relationship between our thoughts and common speech understandable for a wider audience, we are using the definitions used in the international literature on politology and sociology without any additional description.

With a certain degree of simplification, we handle the definition of the state in a wider sense in our article: by the state we also mean central and local will, and part of the increasingly influential voluntary sector. By state tasks we mean public services that – utilising tax and contribution revenues – yield community benefits, and the organisation and implementation of which cannot be undertaken by the individuals. This means that the spectrum is very wide. It includes not only the operation of the large community supply systems, but also financial security, the generation of economic conditions and stability, guaranteeing legal security, the predictability of contractual relationships, etc. We start out from the fact that *the operation of the real economy and that of the state and community sector is closely interrelated*. What is more, the latter is given an increasing role today due to the responsibility for and development of conditions for the economy.

One of the frequently discussed questions of the current literature on economics is the competitiveness of the economy, and the role assumed by the state and public policy in the enhancement thereof. Economic and political events constitute a series of competitions. Therefore, the precondition for staying in

competition – or with a more elevated expression, but certainly not with exaggeration, for national survival – is the adequate answer given to the new requirements, *good adaptation performance*. *The political and state management responsibilities* that the political and economic elites assume for the wellbeing, or in other words, the competitive operation of a society *cannot be transferred to integration, not even as a member of the European Union*. What's more, these responsibilities are increasing in number and complexity. In the following we would like to share a few thoughts on certain elements of this issue and the missing conditions.

## CHALLENGES, REFORMS

The need for making the public sector, including public administration, more efficient and competitive has been on the agenda of developed countries, including Hungary, for 20 years.<sup>3</sup> The adoption of “business patterns”, “the scientific methods of modern management” (or the repeated, slogan-like reference thereto) is getting a more and more accentuated modernisation role in the organisation of community tasks, too. However, in Hungary the transitional process was influenced not only by the direct needs of modernisation, but also by other circumstances, first of all, by the collapse of the so called socialist state model, and the change of the political and economic systems.<sup>4</sup> Such a new model, the surmounting of paternalism assumed not only the radical reduction of the state's ownership and financial management functions, *but would have also required the full and harmonic, systemic reconsideration of state functions, the provision of services and supplies, economic organisation and regulation*. Reconsideration has not taken pace to date, and this could not be substituted by the fact that within the framework of downsizing

the “caring state”, a special, overvalued role has been attributed to the international trend (mainstream), according to which the restructuring of the so called welfare state, the privatisation of public functions, and the penetration of private capital into the public sector began in the 1970s and 1980s – primarily in Anglo-Saxon countries, but elsewhere, too.

However, this process is uneven; depending on political courses, or rather, during the accumulation of the funding problems of public finances, we have seen attempts of varying strength to modernise public finances, and then the failure of said attempts. And if we take the *social state* definition used by the European Union as a valid basis, we should also articulate what its content really means, which social commitments are abandoned, and which are maintained. It is characteristic not only for Hungary that the changes of public finances, as well as the initiatives aimed at improving the efficiency of the business economy of public finances were dominated less by conscious modernisation programmes, and more by the increasingly tangible financing constraints and funding problems of public – primarily social welfare and healthcare – services. The funding problems can partly be attributed to the fact that the utilisation of the results of technical and technological development, primarily the achievements of medical technologies involves enormous costs (it drives prices up). On the other hand, the creation of possibilities, which is technically becoming unlimited, and the increasing average lifetime in the world generate new quantitative and qualitative needs *the funding of which on a societal scale can be less and less implemented from public finance revenues, which can be increased only to a limited extent.*<sup>5</sup> At the same time, it has become evident that the so called self-support, which is an optional service, cannot be the master key to solution. If we want to maintain the former societal access and quality conditions, we must

ensure wages that are sufficient for quality self support accessible for all. However, it is impossible to generate such wages on the asset side, and/or it may result in uncompetitive wage taxes in the real economy.<sup>6</sup> The tension is aggravated by the need for the improvement of the quality of services. As an alternative “solution”, we were compelled to acknowledge polarisation in accessibility to social services and quantitative downsizing – the slashing of welfare services –, which caused considerable social tensions. However, this solution is obviously not enough to cover the innovation and day-to-day costs of the application of the new technologies, and to meet the quantitatively and qualitatively increasing needs. It is a global tendency that the ratio of welfare expenditures – although their internal structure has changed in many countries – has not dropped relative to the national GDP despite such setbacks and internal discrepancies. On the contrary...<sup>7</sup>

The trends outlined, or rather mentioned as an example, the concrete public finance consequences of the answers to the challenges retroact to the living standards of a country, and naturally to the competitiveness of the national economy. And we have not yet mentioned the increasing expenditures caused by the global climate change and environmental protection! Today purely ideology-based political approaches exist nowhere in the world. *We must be very careful about what we call social democratic or conservative approach.* We may even note that the spread or set-back of the neoliberal or populist approaches do not depend on whether the political force having this or that label is an open partner, or not, but rather on the fact whether at the given moment the most pronounced representatives of this way of thinking (may) get positions in which they can enforce their ideas, or not.

According to a survey conducted by the OECD in 2005, 26 countries of the 30 Member States are working on modernisation pro-

grammes related to the public sector. A paramount objective is the wide-scale application of information technology tools, the stipulation of measurable performance objectives, as well as the reduction of the administrative burdens of the society and the economy. The facts indicate that the *modernisation attempts have not changed the relative size of the public sector*: the ratio of public employees has practically remained unchanged relative to all employees, just like the share of public sector expenditures from the gross national product. This proves the importance, or rather the rigidity of public functions. It is a well-known fact that the initiation of the reforms always raises two approaches, even if they occur not in a pure state, but rather with interferences, suggesting a mixture of solutions. The first approach per-

tains to the “who gets what from the state” – this is the quantitative side –, and the state takes steps manifesting in self-support and/or social benefits (the selective or general streamlining or expansion thereof). The other approach is about what makes public services better and more efficient. If we do not accept this duality in the management of these solutions, then no matter how talented the people in political and professional positions are, *the performance of the elite will play a smaller role in the operation of the society*. And this will not provide long-lasting results or progress.

*Table 1* indicates that within the entire public sector, funds spent on public administration and public services<sup>8</sup> have practically remained unchanged in the recent years. This is characteristic for the EU 15 countries and Hungary

Table 1

**THE FUNCTIONAL CLASSIFICATION OF GOVERNMENTAL SPENDING  
IN CERTAIN EU MEMBER STATES AND HUNGARY  
RELATIVE TO THE GDP**

Countries	State operation	Including			Welfare functions	Economic functions*	Total	
		General public services with interest	Defence	Public order and safety				
EU 15	2003	10.3	6.8	1.7	1.8	32.9	4.6	47.8
	2004	10.0	6.6	1.6	1.8	32.7	4.5	47.2
	2005	10.0	6.6	1.6	1.8	32.8	4.4	47.2
EU 25	2005	10.0	6.6	1.6	1.8	32.6	4.4	47.0
Certain countries, 2005								
Germany		8.8	6.1	1.1	1.6	33.9	4.0	46.7
United Kingdom		10.0	4.9	2.5	2.6	30.8	3.8	44.6
Greece		12.9	8.8	2.8	1.3	27.8	6.1	46.8
Czech Republic		9.6	5.5	1.8	2.3	26.3	8.2	44.1
Poland		8.6	5.8	1.1	1.7	30.3	4.4	43.3
Slovakia		10.1	6.4	1.6	2.1	22.5	4.5	37.1
Slovenia		10.1	6.9	1.4	1.8	32.2	4.9	47.2
<b>Hungary</b>								
	2003	12.4	9.0	1.3	2.1	30.2	6.5	49.1
	2004	12.1	8.7	1.3	2.1	29.5	7.4	49.0
	2005	12.7	9.4	1.2	2.1	30.8	6.3	49.8

\* Including environmental protection.

Source: Eurostat database

alike. However, the comparison shows that spending relative to the GDP is higher in Hungary than in most EU Member States even though this ratio somewhat declined between 2001 and 2004. This is partly due to the significantly smaller volume of the Hungarian GDP, but definitely due to the fact that the operational costs of the Hungarian public administration system is relatively higher, i.e. it implies some possibility to improve cost efficiency. The exploitation of these reserves requires new, deep and versatile reforms (we believe that creating a money crunch, or the withdrawal of funds do not constitute a reform), for which it is indispensable to eliminate the political obstacles of various nature. *These obstacles are partly related to party politics<sup>9</sup>, partly to public policy.*

Party politics related obstacles include extremist resistance, the ideological and moral polarisation of the society, the lack of consensus between the political elites, the thematic classification of decision-making matters affecting the determining and influential interest groups in terms of communicability, the intense “rent seeking” activities of the strong political and economic interest groups, the frequent and sharp conflicts between the government and the opposition political forces, as well as the impacts arising from the so called small coalition governance, to be discussed later. A specific boundary case between the party politics and public policy factors is given by the conflicts of interests between the different levels of governance (central government and its decentralised organisations), and the local governments. In case the party affiliation of the local governments differs from that of the central government, political conflicts manifest in this field, too, i.e. public policy conflicts assume the nature of party politics.

*Public policy conflicts partly pertain to powers and partly to finances.* The unrestrained competition among, and the indifference of the opinion-forming and interest representation groups

(policy sectors) to interest harmonisation may pose a serious public policy risk. Consequently we may witness, for example, the forced adoption of a series of so called “professional acts” the financial consequences of which had not been assessed in advance (such consequences are not even known), as a result of which they become impossible to fund and implement. These acts, which cite modernisation slogans, “proven” foreign examples, but in fact represent the interests of certain layers or groups of the society, or on the contrary, acts that are intended to be against such interests without any interest reconciliation – a typical example for this is the current regulation of healthcare services – either lack external and internal harmony, or at best such harmony is incidental. In the absence of impact and harmony assessments, the analyses of implementation risks, i.e. in lieu of searching for the optimum solution patiently, the decision-makers decide about the budget without being aware of the fact of determination and its consequences. If we accept that in addition to the above factors other, objective social and economic reasons may contribute to the limited modernisation performances<sup>10</sup>, we can also admit that the implementation of the different ideas largely depends *on the extent to which the society considers the management and control system creditable*, and on the extent to which it accepts the arguments of this or that public policy actor. The fact that he/she is well-intentioned and is able to lead to success.

In relation to reforming the operation of the public sector it is important that countries (integrations) being at different levels of economic development, and having different social structures and historic past can reach the maximum (optimum) of their competitiveness or operability *not by copying, or formally following others, but by the reasonable adaptation of the successful paths of the leading countries to their own conditions.* The indirect proofs of this –

the financial consequences of which are also well-known – include those unsuccessful motorway financing or institutional organising attempts in which the solution was aimed to be achieved by purely copying foreign patterns and experiences.

## FROM PARTY POLITICS TO PUBLIC POLICY

When analysing the concepts and relations of party politics and public policy, it is reasonable to start out from the fact that parties have an important political and social role in modern democracies (multi-party system). Upon getting into a governing position, for instance, they have primary responsibility not only for the operation of the legal and institutional systems, but also for the development and implementation of policies, i.e. the smooth operation of the economy and the operability of the society.

*The level of acceptance of a behaviour represented by a given political force has financial and economic consequences, since it can obtain social support for its steps either with appearances and high-sounding slogans, or with communication influencing the emotions. In other words, how it can win social support by citing coercive adaptation, or, in contrast with this, the chance of a much larger room for manoeuvring, the chance of a “third” own route, the danger of giving up ourselves, etc. It is about convincing the economic players, the society, and foreign countries about the fact that the path or approach taken by this force (even though it may seem “compliant”, or on the contrary, “combatant in the interest of a group” will lead us closer to success, will yield more profit in the long run, while in the short run it will serve well the target system of maintaining or acquiring power. However, experience shows that the appearance of communication aspects that overwrite everything has brought*

about new risks, and of course new needs for optimisation. *The failure to search for the optimum can easily lead to the fact that each step will have an impact contradictory to the intended purpose.* It may result/results in a loss of trust if the target system of a political force is identified purely with its gestures or behaviour, or, if it destroys the credit of its own intention by “admitting the truth”. Self-limiting (self-defence) reflexes have appeared in the voluntary society, or maybe in political thinking, too for the prevention of the moral and financial shocks and destabilising effects of such situations, or “great disappointments”. In line with the Hungarian intentions, too, in several countries *political overpromises and the willingness to spend are effectively restrained by stringent budgeting rules.*<sup>11</sup> Recently, in a few European countries with strong democratic traditions, “prices have been affixed” not only to determinations brought about by value selection, but also to *the parties' election programmes and the budgetary impacts of the bills by independent professional organisations.*

Within this framework, political parties all over the world shape their policies and concepts of politics on the basis of their own system of thoughts, social, economic and power interest relations, first of all the aspects and requirements of acquiring or maintaining their power, which also serve as a foundation for determining the operational party tasks. In the case of the latter it is a requirement that party politics must express the concrete relations of a given country at a given time and at a given stage of development. Therefore, party politics typically does not represent all interests of the entire society. Of course, in verbal communication and rhetoric all parties state the contrary, since they strive for dominance regarding the voting base and support, however, social, economic and political relations must be extensively taken into account when developing the concrete party tasks.

On the other hand, public policy is (public policies are) designed to<sup>12</sup> serve the public good, and enforce the interests of the entire society (all citizens) independent of ideological, social, political, ownership and income differences – albeit not fully neutrally in terms of values. This results in the fact that the governing party (parties) must take into consideration and enforce as much as possible not only political preferences, but also other interests of the society, aspects and expectations beyond party politics in the narrow sense of the word.

### Public service versus party interests

While intending to foster the prosperity of the country, the political parties and the policies (public policies) implemented by them naturally aim at increasing the welfare, and improving the social satisfaction of social layers or groups forming their respective voting base. (It depends on the ideology or thoughts of a party as per which social groups it is closer to, or more accurately, the interests of which social groups it represents first of all.) The multi-party system has the advantage that citizens may select the party from among the parties competing for their “favours” the one that seems to be the most appropriate. At the same time, especially this election competition gives a true picture about the parties' behaviour in relation to politics and policy. In order to widen the voting base, the parties promise “the blue moon” in the competition, they bid against one another creating the impression that the given party is expected to provide “the most” “at the highest speed” – naturally – to everyone. In fact, with this behaviour they shatter the possibility for this, since they first of all strive for maximising their popularity and votes disregarding the rules of economics and the long-term interests of the country – or even the given party. This is the most funda-

mental reason for the fact that – in theory – public policy cannot (must not!) be subordinated exclusively to the politics of the governing or the opposition parties. The one and a half decade long “Hungarian practice” provides a perfect evidence for this: parties that have come to power so far have been compelled to implement open or hidden alignment in the first period of their term, depending on the overpromises they made in the elections, or the extent of “distribution” prior to or after the elections. (We will quantify and describe this phenomenon later.)

In addition to the above written, it is also necessary to point out a few characteristic features of the transition in Hungary<sup>13</sup>, and the consequences thereof. It is a given fact for our topic that in Hungary politics (party politics) has increasingly forced itself on public policy, as well as on different segments of the society. This can be explained by many factors, the most fundamental of which is that due to the nature of democratic transition, *political activity has also become a function that ensures the determination of the level of existence, the acquisition of economic resources, and distribution among stakeholders*. This function is becoming increasingly apparent, as the economic potential, influence, and competitive edge of companies (not only multinational companies) in foreign ownership (with a foreign investment background) are becoming more and more dominant.<sup>14</sup> Apart from these companies there are only a few domestic company groups that can more or less make themselves independent of the domestic conditions due to their sizeable foreign investments, capital strength and competitiveness. The number of positions that can be obtained by domestic supporters that are markedly present in the shadow of the political forces, and organisations representing different economic forces – i.e. the *clientele* with not always stable ties. As a “solution”, initiatives that manifested in the form of taxes, entrepre-

neurial discounts, and had a rather zig-zag life, and were shattered without an impact assessment by the new political course, were supplemented (replaced) with such possibilities *that can be linked to the “marketisation” (privatisation) of the public sector services and state functions*. As a consequence, the public policy decisions, modernisation, service improvement measures include such direct factors that are not only new and unknown financial or economic schemes lacking proper regulation and experienced management, *but are also influenced by openly undertaken or concealed interest relations*. Under such circumstances it is impossible to get a transparent answer to the question as per what real considerations have led to the decisions, which time horizon was taken into account for calculating the public funding advantages and disadvantages, and whether the decisions yielded a wider-scale advantage in addition to providing opportunities for certain individuals.

Following the initial accordance within the political elite of the democratic transition, among the different political forces about the need for and starting the change, a similarly strong opposition emerged among them in the fight for obtaining and keeping the political and economic power, by making overpromises to the extremes, and breaking the plane of thoughts aiming for short-term political profit maximisation from the rational professional approach. Part of this process – as we have mentioned above – still goes on as a constraint for the consensus-based steps of modernisation measures, and has resulted in the polarisation of the Hungarian society, while – as we mentioned before – *the opposition between the so called right and left wings is not primarily ideology based*. Succumbing to their short-term interests – forces coming to power have made all efforts to bring the state, the economy, the institutional staffs and the organisations under their influence. This explains the fact that as

soon as the “other wing” came to office, radical personal and institutional changes were implemented. The selective process determining the values to preserve and the changes to be made lacked continuity, a common starting point and the minimum consensus. The consequences have manifested in the anomalies of budgeting, budgetary overspending leading to a debt spiral (as a risk) and finally to unsustainable financial positions, *and then in major restriction burdens*. The entrenchment of rules of law requiring two thirds of the votes can also be attributed to this, since the forces currently in opposition seek consensus and consider contribution to the change depending on the developments of the “current situation”, as well as on the basis of the expected governmental position and the possible room for manoeuvring within that framework.

### The competitiveness of the public sector and the political definition of the country's objective

The above written strongly affects the competitiveness of the public sector and the economy, including the optimisation of the political and the economic sectors (Kovács, 2005). Therefore, it is evident that one can describe the concept and practice of the most competitive public sector, public administration and governance in the social and economic reality. The most important thing is probably the following: as the economic competitiveness of a country can only be measured against the development and structure of the entire world and the other countries, the competitiveness of the public sector can be interpreted within the framework of the social and economic operation of a country. In other words: the public sector, public administration, the economy, business organisations, the private sector, as well as the political institutional system, the



voluntary sector, profit and not profit oriented organisations, i.e. a whole range institutions and operational schemes are not only bound together, but *also operate in a single unity*. The different sectors operate in the single unity of the society, but not in a single manner or form. Each has its specific role (task). They should be harmonised as a whole in order to have an adequate total impact (competitiveness of the country). Hence, interaction is evident and clear. However, the clear and expedient formulation of the tasks also requires the definition of the dual, direct and indirect role of the public sector in influencing competition. However, for the time being this is either incidental or non-existent.

The public sector, and primarily its institutional and financial management organisational system has the task and responsibility to *utilise public funds and resources entrusted to it as effectively as possible*, and to directly and regularly improve the efficiency of utilisation. It must provide more and more, and better quality services from per-unit funds. It is of equal value if – striving for the best results possible – these expenditures are replaced with appropriate solutions. (For example, prevention is put in the focus in healthcare.) From this aspect the pattern to copy – not exclusively – is the private sector and market coordination, where the primary objective is the profit-centred rationalisation of resource utilisation. The public sector can make this objective an absolute goal under no condition, since it must strive for the maximisation of social usefulness. This means that competitiveness and efficiency in the public sector is not a pure market category: it cannot be derived simply from market coordination.<sup>15</sup>

On the other hand, *the public sector provides public services to the private sector in various forms, and creates a legal, social and political institutional background and set of norms for its operation*. The state (public sector) also exer-

cises this so called indirect function when it orders various goods and services from the private sector, and thus contributes to the improvement of its own competitiveness, and the competitiveness of the entire country, eliminating the friction losses, or mitigating potential corruption and negative externalias. Consequently, proper country operation and country management differ country from country not only because of the different historic pasts and presents, but to an equal extent because of the *social and economic country objective*, i.e. the politically formulated, professionally well-founded vision, which is supported by the majority of the society.

As a result, in theory, vision is a set of *values* reflected in party politics that have been transformed into harmonised interests, and then into objectives in public policy, which set is able to determine the mainstream of public thinking. At the same time this also means that *in the absence of a value oriented party policy it is impossible to create a longer-term, widely accepted concept that constitutes a mobilising force*. This is all the more so because vision cannot be identified with the formally drafted national development plan despite the rational concepts laid down therein, or with a homogeneous political and professional thinking, stable in the longer run, or with progression encouraging assimilation. We can hardly speak about a system of objectives meeting these requirements. Such demand has been presented *neither by public policies, nor by party politics so far*.<sup>16</sup> The reason behind this might be the fact that – as it can be felt on the basis of the SAO audits, too – the approach has undoubtedly gained space, according to which *the economic interests of globalisation have an increasing power over politics, wherefore the target system of public policy is becoming more and more internationally organised*. If we accept the rational content of such thinking, its expediency entailed by assimilation, or maybe even the

possibility that it cannot be excluded that such a target system of assimilation takes us farther in the development of the society's ability to perform, it must be noted that – with regard to the undeveloped economic institutional mechanisms of globalisation – *it would be more accurate to speak* in this context, too (just like in other relations to be discussed) about *an unfolding, new and extremely complicated field of interest harmonisation*. For if we accept that public policy is fully controlled internationally, and for the lack of own ideas we identify the creation of conditions with mechanical adaptation, then, in addition to accepting that external control can never be sensitive to the cause of social cohesion, we also risk that everything that we have so far identified as the domestic target system of the development of competitiveness at the level of the national economy will lose sense. The discussions, scientific research or the expression of political opinion on the competitive public sector will lose stability.<sup>17</sup> Rationality may turn into irrationality.

In determining the optimum size of the public sector it is fundamental to know, based on the given social and economic objectives, what separation of work is the most useful between fields within and beyond the public sector, state and non state (private) spheres, as well as competencies within governmental action and scope, and non-governmental competencies. It is a determining factor what activities the state wants to vindicate to itself, and what are the activities that are performed more effectively outside the scope of the state, or in cooperation between the two sectors, according to the state. This holds true both for the direct and indirect economic roles of the state. A special form of economic role undertaken by the state is the presence and operation of state companies on the market. The 15 years following the democratic transition in Hungary irreversibly and finally transformed the extent and direction of this role. State companies in the pro-

duction sector were privatised (Báger – Kovács, 2004). Reversing the ownership structures and fields, state ownership, which accounted to almost 90 per cent, was replaced with private ownership of almost exactly the same rate. Due to the weak harmonisation of interests, the process has turned out to be much more contradictory in relation to state owned companies that have an interest in services. (Service prices *versus* the population, getting to the workplace, employment, etc. *versus* owner's losses.) The role of private capital has become dominant in the economy of Hungary (and consequently in other segments of the society, too.) In the light of these facts, the *economic policy role, as well as the market operation and regulation tasks* of the state (government) have gained ground, albeit these are restricted in many aspects due to the presence of the different political and financial fields.

The competitiveness of the public sector can be interpreted in the system covering the entire economy and society. It is the proper development and operation of this system which ensures the efficient structure of the relations between the political and the economic sectors, as well as their harmonious interaction and organic integration. By enforcing and keeping this efficiency target in mind *we can get from party politics to public policy*, which is not an easy road for the party or parties in power, because it regularly and repeatedly goes with the renouncement of certain parts of the power, and the transfer of such power from party politics to public policy and “civil policy”.

A large portion of malfunctions in several fields of public administration and public service could be attributed to the conditions of the transition.<sup>18</sup> The democratic transition strived for the quick elimination of the deficits that had accumulated in the economy and the society, and which had been rooted in the low efficiency of operation, and meant the lack of democratism. In eliminating the “dual deficit”,

the leaders of the transition gave preference to the eradication of the democratic deficit, i.e. *the efficiency aspects were put on the back burner*. Since then, the situation has changed not towards better performances, but in the fact that efficiency aspects are now neglected not because of the intention to eliminate the democratic deficit, but *because of other major reasons*. The most important reason behind the current inefficiency of public administration and public service is that in the absence of a long-term target system that can be regarded optimum and that is supported by the political and economic forces and accepted by the voluntary sector, the subsequent governments could not find the right balance between centralisation and decentralisation. The malfunctioning of the governmental sector interpreted in the broad sense of the word is also due to the fact that the political (governing) sector incessantly creates conflicts between the government and the opposition, and thus makes it difficult to find a professional solution to the problems of competitiveness (Borsi – Vértes – Viszt, 2006). We are well aware of the financial consequences of the daily interests of coalition governance driven by party politics, which manifest in the zig-zag-like structural and business economic errors of public administration and public service. It is sufficient to refer to the serious accounting mistakes that are found in the final accounts as a result of restructuring, re-restructuring and mergers, etc. in the ministries, or the credibility and reliability problems of the financial statistics, or creative accounting.

If we organise the SAO experiences into trends it can be pointed out that although *public policy makers announced decentralisation from time to time*, and planned to outsource tasks and divide the responsibility, in the end the governments realised that this would reduce their power to intervene and their room for manoeuvre, and that they would lose cer-

tain political and economic/financial influence. Therefore, policy makers were reluctant to implement their own decisions, or even if they did so, sooner or later they reversed their decisions. *Linking centralisation and decentralisation to the interests of exercising power on a daily basis, can be regarded as a public policy risk appearing in financial performances and financing anomalies*. Its manifestations mark out from the SAO reports in the form of incoordination, the management of state institutions at various levels from a one-sided aspect<sup>19</sup> either for sectoral interest or personal managerial conviction, or the uncritical enforcement of the market fundamentalist views of certain persons having the ability to enforce their interests and/or to influence others.

Apart from the importance of the application of new solutions one cannot sufficiently emphasise the role of the “collective memory” of public administration – the technical knowledge of problem solving and the ability to apply such knowledge – in the improvement of the competitiveness of the public sector. However, the mechanical adaptation of theories described in books on management, or the conscious disorganisation of administrative organisations citing the need for “breaking down the resistance of the bureaucracy against reforms” can also pose a risk of serious financial consequences, leading to the drastic reduction of the administrative system and the performance of the real economy. The same impact can be achieved if performances in the management of the organisational system are tried to be achieved by doubling the management structures, and making them “compete”, while the major decisions are made in an ever narrowing circle. Without doubting the sincerity behind the initiatives launched with the aim of modernisation, it can be stated based on the above remarks that *we are witnessing a strong scope and administration concentration process* in contrast with the announced objectives. It is a spe-

cific consequence that the cutting edge of public policy debates, *criticism increasingly targets the highest governmental peaks, and does not deal, or only hardly deals with the other elements of the system.*

### The price of coalition governance

Based on empirical analyses, the international literature finds the relationship between lax financial discipline and coalition governance (and the underlying election systems) evident (Hagen, 1992; Hagen and Harden, 1996; Perotti, Strauch and Hagen, 1998). Naturally, we are talking about the so called small coalitions, since a so called large coalition is organised on the basis of a strongly legitimate public policy target system enjoying wide social support, and not “only” according to the direct, short-term objectives of governability and the maintenance of power. The third type of coalition is the so called fragile coalition, for which several European examples exist currently.

However, in the strictly theoretical approach, the “costs” of coalition governance cannot be attributed exclusively to the deficiencies of fiscal discipline. The participating parties are engaged in rent seeking activities themselves, which begin at the time of deciding who gets which ministry. This phenomenon could be observed in all Hungarian governments of the past 15 years. In addition to fund allocation, the position of the smaller coalition parties may also extend to the acceptance of the policy priorities, as well as the acceptance (rejection) of reform concepts, the channelling thereof into unrealistic directions, the acquisition and keeping of executive positions. In connection with their behaviour, which changes with time, we hereby note that these parties usually play an important role in modernisation adaptation, in seeking the optimum decision, and they usually act cautiously in

financial issues and remain consistent ideologically, too.

Leadership compelled to keep the smaller coalition partner on the Government's side further increases the sectoral orientation of the public policy system, since each partner stakes a claim for strong ministries (ministries in charge of funds allocation), which (may) get over public policy rationalities, and primarily enforce party interests and economic philosophy notions. This obviously further diminishes, or almost completely eliminates the chances of public (professional) policy objectivity. It is also unquestionable that coalition government may also mean the “coalition” of different policies. This evidently goes with frictions, which may obviously lead to further so called friction losses due to delays, counter-effects or other reasons.

### Interactions between the governance levels as conflicts

In relation to this issue we must first of all have to point out that the central fund regulatory and development financing, supporting system of the local governments maps all problems of this area as a 'veterinary horse' (like the horse in the collection of a veterinary college, demonstrating all conceivable illnesses – translator's note). The original system of fund regulation was replaced with a “torso” suitable for the mediation of party politics preferences and sectoral interests, and which also includes, and this must be highlighted, the establishment of regions, laying the public administration foundation of regional policy, or the multitude of problems in the development of education and healthcare.

It can be attributed to the political limits of the resolution of interaction conflicts and the malfunctions of the search for compromise that a series of measures have been taken as a

result of which the questions of fundability lost ground, and the budget determinations brought about by professional acts have created such services – as we have indicated in another context – that cannot be sustained in their present form due to the lack of financial substantiation.

## THE PUBLIC POLICY ARENA

Democratic societies have developed an extremely varied organisational and institutional system for shaping and implementing public policy. In essence, this is about the social medium in which the different interests appear and clash. It is in this process that public agreement and social consensus is reached, this is where the public goals are being shaped and this is where the *policy* is ultimately born. In the following we will examine *four stages* of public policy establishment, shaping and implementation:

- the problems of centralisation and decentralisation at the different decision-making levels of the public sector;
- the mechanisms of social interest reconciliation, the role of the voluntary sector;
- the role of party politics consensus in the shaping of the public policy, and finally
- the professional foundations of public policies.

### The correlation between the different decision-making levels of the public sector and competitiveness

The precondition for the establishment and implementation of a successful public policy is finding and enforcing the proper ratio between centralisation and decentralisation. The successful implementation of centrally well prepared policies require a certain level of central-

isation. At the same time, however, the token of the successful social and economic development of a country is *the regional coordination of developments, the encouragement of local initiatives, as well as the enforcement of regional aspects and the requirements of the economy of scale*. In the European Union these stages of development have gained special importance.

Based on the development in Western Europe it seems that in addition to the survival of the threesome division of the central, regional and local governments in a certain form, the regional policy and approach of the European Union have induced a fundamental change. This *regionality* – even if it did not overturn the levels mentioned above – has created a completely new economic, political and social space by replacing or by being attached to the medium level. The express philosophy and objectives of the European Union have been driven by the fact that the effective operation of all countries requires a level that links the centre not only with the municipal governments and local institutions, but also with the individuals, the families, as well as the smaller or larger social and economic communities. In terms of content, this regional policy is closely linked to the economic, social cohesion and convergence policies, and is a clear manifestation thereof. In accordance with this, *although the aspects of competitiveness are important at regional level, too, the most central element is convergence and the facilitation of convergence*.

On one hand, convergence means the convergence of the given large region (EU), and the individual countries to the leading economic (power) field of the world. On the other hand, the subsidy system based on regions also serves the convergence of smaller territorial units within a country, and the reduction of regional disparities in development. It is assumed that regional convergence in terms of development *radiates not only, or not primarily to the entirety of the country, but also vertically, to the individ-*

*uals, the mediating institutions and organisations, including local governments.*

### EU membership: the new roles of the regions

It creates a unique situation that regional politicking in Hungary lacks traditions both in the sense of *politics* and *policy*. Therefore, the knowledge of the European development path is extremely important for the modernisation of the Hungarian social and economic policy practice its structure and operation serves as a basis for comparison and adjustment, since its adoption – and not mere copying – is expedient and unavoidable. Adoption has been mandatory since 2004, i.e. Hungary's accession to the EU, not only in general terms, but also in relation to regionality – as an example of public policy controlled from the outside, since a large portion of subsidies are not available for the regions without a regional policy. In addition, the distinguished role of the regions and regional policy constitutes not only a financial background and funding possibilities, but *may also implement the rational form, size and organisation of the public administration sector.*

While adjusting to the European regional system, it is definitely unavoidable to establish – in addition to the already existing statistical regions – country regions forming real public administration units. However, this can only be implemented at the expense of fights for power, since the establishment of *regions having real power, i.e. assets and funds, also means the redistribution of the economic and political power.* This political fight for the establishment and ownership of the various levels of public administration has evidently existed in each country, and has accompanied the delineation of regions. Yet, it is probable that due to the above mentioned clientele that plays an especially intense role in the Hungarian economic

and political arena by European standards, and due to the existing corruption – especially at the level of the regions and municipal governments – *the fight for power is much stronger in Hungary* than on average. The delineation of the regions and the acquisition of opportunities related to the regions are not only about the acquisition of power, but also about the ownership of or at least control over several coherent areas. A paramount area is the political, economic, financial and fund allocating power (the latter means the acquisition and redistribution of budgetary and EU funds).

This is why it is especially important that as soon as a new relationship is established between the centre and already functioning regions, *one of the basic tasks is to create, or at least improve, the transparency of the fund allocating role of the centre.* This is so because allocation or reallocation following the primary allocation is carried out in the centre. Consequently, it can be supposed that the clarity and efficiency of the financial management of the regions to be established are in part predetermined already at the central level, in the clarity and efficiency (transparency and controllability of operation) thereof (Kovács, 2003). If the regions obtain central funds according to transparent rules, it is more probable that fund allocation within the regions will be corruption free and regular. Therefore, the optimum operation of the regions in the interest of the country can definitely be linked to a central budgetary system that is more transparent and can be better controlled by the society than today, a system, in which professional audit represents not merely a passive follow-up work, but an opportunity to have a direct say in the entirety and structure of the budget.<sup>20</sup>

Ownership of the regions, but also the right of exercising the power at any level of public administration provide the basis for not only the power over funds channelled by the centre: the ownership of power either at municipal

governments or at the medium regional level *may provide access to the private sector, the entrepreneurial sector, as well as the domestic and international fields of force of capital.*<sup>21</sup> This means that the political power provides dual funding resources at the same time: central (state) and entrepreneurial funds. In the one and a half decades following the transition similar processes occurred between the central power and the business sector, the fields of power that obtained the political power in the subsequent election cycles, and the field dominating the economy. Due to the unique development of the transition in Hungary, domestic large companies and international (multinational) companies also play a significant role in these links of power in Hungary – as it is indicated by the system of clientele.

In the philosophy of the European Union, the region represents the most important level and tool in the convergence of the countries in terms of development, but also in the convergence and equalisation of the living conditions of the individuals, the citizens. In addition to other tools, this is supported by the EU with significant budgetary funds, first of all through the Structural Funds and the Cohesion Fund. At the same time, however, the expected equalisation of the regions of the European Union did not occur in the “calm” period preceding the eastward enlargement, the convergence of the less developed, poorer regions did not speed up in the decade lasting from 1993 until the eastward enlargement. Said regions have failed to develop at a significantly higher rate than the average, wherefore the disparities have hardly diminished (Práger, 2006).

The philosophy of the EU's regional policy evidently serves two objectives: through approximating the level of development of the regions it also fosters the equalisation of the financial standing and living conditions of the countries by acting “upwards”, and those of the individuals by acting “downwards”.<sup>22</sup>

Economists and economic politicians observe and analyse the upper two levels, the countries and the regions, and measure the rate of convergence or disparities accordingly. *However, the subject of real convergence is the individual.* The size of tasks to be completed in the Member States in this field within the frameworks of the European Union, is well illustrated by the income disparities and the striking differences in the opportunities available to the average citizens.<sup>23</sup>

### Central governance and the local governments

From among the three levels, the relationship of the central governance and the municipal governments are the most complex, and influences the performance of the entire public administration system most of all. This is due not only to the fact that these two levels play a determining role by themselves, or that they have historically had a strong role in public administration, but also *to the weakness, or significant weakening of the political and economic force of the intermediate level, the county.*<sup>24</sup> This is aggravated by the delayed establishment of the new level, the real regions, which can also be attributed to the fight for power positions. The fact that the process of unavoidable regionalisation is so slow in Hungary can *basically be explained by the resistance of the centre and regional units (counties) fearing the loss of power.*

It is a unique feature in terms of public policy, too that while the power system is being strongly concentrated, at the level of the National Assembly the heads of the regional and municipal governments join hands in strong territorial interest associations (that are not necessarily regional organisations, but rather related in size, function, etc.) to foster temporary lobby interests and stable local

interests. This can be well felt in the allocation of budgetary and EU funds.

In the initial period of the democratic transition, the relationship between the central public administration (central government) and the municipal governments were naturally driven by the compensation reflexes of the obsolete council system. The development of the Hungarian local governmental system (and also its current situation) has a few characteristic features that go back to its inception, which determine the possibilities of the current and future operation alike. One of these factors is the size and number of municipal governments.<sup>25</sup> In Europe Hungary belongs to those states in which the size of population per local government is the smallest. This is cited by opinions that appear in public policy, too, and according to which the merger of local governments would solve the problems of decentralised financing. However, we believe that this type of rationalisation would yield a controversial result, since in addition to the simple financing advantages, it is also a point of consideration that even the smallest municipal governments play an important role in maintaining the settlements and their population, and this is also a question of a financial-efficiency optimum.<sup>26</sup>

Due to the legally set governmental tasks, municipal governments have a large room for manoeuvre on one hand, however, these functions have widened in an unlimited manner on the other. This is especially true on the funding side. After the collapse of the previous regime, *municipal governments received funding more or less commensurate to their tasks*. However, in the meantime the tasks and scope of the local governments have considerable broadened. It is well known that local governmental funds primarily come from the central budget from normative and other subsidies provided for the completion of state tasks, from the share of the personal income tax revenue reallocated to the

local governments, as well as from the settlements' own tax and other revenues (fees and assets). Lately, the ratio of central reallocation has grown, while the real value of state subsidies provided to the local governments for the completion of mandatory tasks, and consequently the economic room for manoeuvre has reduced, – i.e. *the gap is growing between the funds available and the funds required for task completion*. A gap has occurred between the expected activity and the realistic performance of the local governments, which causes counter-productivity, and consequently irrationality and frustration in determining the local target systems at the municipal governments. The tensions of the situation are even stronger where the central and local policy power positions, the opportunity to control administrative tools are held by opposing (party) political groupings.

*Table 2* well illustrates the financial relations between the central power and the local governments, which are basically determined by the government, or the National Assembly it influences (in terms of public policy).<sup>27</sup> Naturally, *the municipal governments also have independent economic and political power*. Apart from the above mentioned correlations between the political power and the economy (intertwining, subsidies, etc.), direct correlations can be revealed, too – for example, *in several cases the municipal governments own business organisations*. The danger that party politics will dominate public policy is not negligible at this level either.<sup>28</sup> Due to the large gap between the extensive independence of the local governments in terms of public law, and the extremely strong dependence on the budget, as well as due to the political and power (party politics) interests – “maintaining the balance” said conditions cannot be eased in any direction centrally. *In the given overpoliticised conditions, the reduction of dependence on central funds and/or the reduction of certain service*



Table 2

**LOCAL GOVERNMENTAL REVENUES**

	2000		2002		2005		2006	
	HUF billion	%	HUF billion	%	HUF billion	%	HUF billion	%
Total revenues	1 656.1	100.0	2 181.0	100.0	2 891.0	100.0	3 053.4	100.0
Taxes including	478.9	28.9	646.9	29.7	887.0	30.7	961.0	31.5
own taxes	221.8	13.4	296.8	13.6	397.9	13.8	448.9	14.7
shared taxes	257.1	15.5	350.1	16.1	489.1	16.9	512.1	16.8
Subsidies	772.3	46.6	1 066.2	48.9	1 408.7	48.7	1 425.9	46.7
Other	404.9	24.5	467.9	21.4	595.3	20.6	666.5	21.8
Cash flow balance	5.0		-105.0		-81.4		-156.5	

Source: Budgeting in Hungary. OECD (2006), Final accounts for 2006

*obligations on the other side – for example – can be hardly achieved*, just like small regional cooperation, which would serve as a solution according to the audit experiences of the SAO, too, or making independence proportionate to responsibility, etc. A new development that is also reflected in the SAO reports, and that directly influences the financial positions of the local governments, and indirectly affects the willingness to reach a consensus in party politics and public policy is the appearance of EU funds. Acquisition of these funds compels central and local levels to cooperate.

**The three levels and the security and efficiency of country operation**

Based on the above it can be concluded that the efficient improvement of the public sector is fostered by steps that can be included in the assimilation parameters dictated by the external conditions and environment on one hand, and also by steps that are brought about by the strengthening of the operation of the society and the voluntary sector, and finally by steps that are conceived in the cooperation between the actors of the real economy and the governance taken in the broader sense of the word within the framework of condition creation for

the improvement of the social and economic competitiveness of the country. We believe that *consensus is inevitable in these areas* for the sake of development. *The foundations of the minimum consensus* referred to in the title of this article *can be laid down in these areas*.

The EU's principle of subsidiarity – as a part of the public policy of adaptation – must be implemented in the entirety of the Hungarian public administration practice not only because this is what leads us to the development of a public administration system similar to and harmonising with that of the European Union. The decentralisation of the decisions, the transfer thereof to and near the most affected layers and people will make the decisions more substantiated on one hand, and – since the decision-makers and the decision implementers are completely or almost completely identical – the chances of successful implementation will improve on the other. The enforcement of the principle of subsidiarity brings changes into the relationship between the central and the regional, as well as the central and the municipal governments. In the former it is important that by emphasising the reduction of the role of the state – which has almost become a political and economic fashion – *there would be no temporal phase shifts in which the state gets rid of functions that cannot be fulfilled or assumed by*

*any other organisation.* This pertains to areas that are more directly linked to the economy, but even more to general societal and social tasks.

As we have mentioned before in other relations, several state functions (e.g. public transport) cannot be transferred without responsibility in the economic and the infrastructural sectors either. The determination of the distribution of responsibilities, operational tasks, and the institutional roles among the state, the local governmental and the private sectors is even more sensitive in the social sector, in healthcare and education. Where the activity can “afford” profit orientation, or the market-type mechanisms, the spinning off and discontinuation of state tasks cause fewer societal and social disturbances than in the classic public sector. In the social fields *the withdrawal of the state cannot mean the renouncement of responsibility for supply or care, or at least for creating and maintaining opportunities.*

Work sharing between the different levels of public administration does not only affect areas within the scope of public administration. The distribution of activities, the development of public administration, financial and social management structures ensuring the efficient operation of the state is possible only through the inclusion of areas beyond the scope of public administration, which means – we reiterate – that the internal and international competitiveness of the Hungarian public sector and public administration can be achieved by creating the efficiency of the entire “country system”, but the interaction works in the reverse direction, too.

The precondition for the efficiency of public administration is the effective operation of the external control systems. Public administration can be made more efficient by the entirety of the control mechanisms, yet the two elements that play or should play a determining role in the control processes are the interest reconciliation mechanisms and the voluntary sector.

## THE ROLE OF THE INTEREST RECONCILIATION MECHANISMS AND THE VOLUNTARY SECTOR

The separation of interests was formerly based only on the structure of the market economy. This was demonstrated by the threesome division of the interests of the employers (the multi-player group of private owners), the employees (well organised working class, strong trade unions) and the state (initially acting as a watchman, and then gradually as a welfare provider). At that stage, the interests appearing in party politics still showed good agreement with the interests and classes of the capitalist economy – since they were mass parties – and were able to modernise the system of economic interest reconciliation. In line with the interests of other voluntary organisations, the representation of party interests also fulfilled the role of social cohesion. *The current events are drawing attention to a growing number of problems inherent in the traditional, one might say classic system of interest reconciliation between employers and employees, which came into being in the period of the industrial revolution.*

### The unviability and transformation of classic economic interest reconciliation

One of the preconditions for the healthy and efficient operation of the society (including the economy) is the balanced division of power. Sustainable development in the entire society can be ensured if no monopolistic situations occur, but typically actors of equal rank function, i.e. the individual public administration levels are relatively independent from one another, and their roles are somewhat unattached. It must also be taken into account that interest reconciliation – or rather interest harmonisation – is no longer confined to the fields of the above mentioned traditional relation-

ships. A major field is environmental protection, which can appear in the conflicts of interests between smaller or larger groups at international-international, central-local, employer-employee levels, or even within the voluntary society (population).

The shapers of public policy and the actors of the economy face complex, competing sets of interest. Accommodation to the new requirements brought about by diversity and multilevelness – *the ability to reach the minimum consensus* – is nowhere to be seen for the time being.<sup>29</sup> The former position of actors that were relatively of equal rank in terms of public law has changed: globalised capital dominates, and thus weakens the interest enforcement role of the state (see tax benefits), and restricts the interest enforcement ability of the loosely related employees and the weak trade unions (see wages and working time). The changes have also affected party politics, as a result of which the interests expressed in party politics and party programmes cannot fulfil the traditional role of interest integration. On one hand, the party programmes announced for the maximisation of votes and the expansion of the voting bases hardly differ from one another: *right wing parties campaign with classic left-wing values, while the left wing includes neoliberal programmes and social promises in its priorities*. With such contradictions in value selection the interests of the different parties cannot manifest themselves strongly enough, and interest representation suffers damage, too. However, the real fault lines – and their budgetary consequences as seen in the SAO reports – develop not along party politics, but rather on the practical paths of *actual possibilities and unlimited promises, as well as acquiring and holding on to power*, and, for the lack alternative, closed target systems (vision) suitable for interest reconciliation, *in relation to the international economic, power, political and military fields of force*. This situation results in the fact that fluctuat-

ing and zigzagging public policy has very many losers, and makes it impossible to pursue optimised and harmonised professional policies that are valid in the longer run, (taxes, subsidies, operation and size of service providing systems, etc.) and that serve the purpose of competitiveness in the creation of conditions. This stabilises the contradiction, according to which while public policy can be articulated in theory, we do not get to the target systems that carry the public good, and there is no real alternative to this rather blurred vision-shaping need.

The national capital has a low interest enforcement ability and small room for political and economic manoeuvres, and these are connected to the political elite and form the clientele. The basic point of the conflicts of interests between the parties is *the establishment of own economic clienteles (background)*, the possibility of which is diminishing as the state assets to be privatised shrink. New economic resources (state positions, membership in supervisory boards, etc.) must be found and a higher portion of state orders and EU funds must be acquired.

Today, at the level of public policies, the various activities and processes are typically, almost always, approached from the interests of the economic and the financial world. This is why during the improvement of the operation of the state and certain institutions thereof, during the analysis of the content of such operations, and during the establishment of the controlling roles, the methods and relations of the private economy appear in almost all cases as requirements, as well as ways and methods to follow. And the typical feature of the current era is that despite the almost overwhelming and overturning dominance of the economy, *an increasing portion of the society, human existence and activities will be pushed beyond the boundaries of the real economy taken in the traditional sense of the word*, and human capital, creative

and progressive human knowledge have become and will become a determining factor within the economic sector, too. However, this also leads to the fact that while developing the optimum country operation, *the economic sector and the sphere beyond must be taken into account concurrently, and must be given almost the same weight.* This applies to the system of public administration, and the systems controlling the political and economic fields of power alike.

### The expansion of interest reconciliation, the role of the voluntary sector

It must first of all be emphasised that interest reconciliation mechanisms cannot be restricted to the reconciliation of economic interests, to agreements among the three main actors involved – the government, the employees and the employers –, since the scope and boundaries of social existence are much wider. Interest reconciliation restricted to the economy is inadequate from another aspect, too. It is an obvious fact that due to changes that have occurred in the structure of work, activities and ownership, as well as in the age composition in the past decades, *barely half of the ten million citizens of Hungary are directly linked to the world of work.*<sup>30</sup> Consequently, if we take into account the activities, living conditions and connection points of the population, the only possible approach is that of interest reconciliation in the broader sense of the word. It is an important recognition – and the impact of integration on public policy definitely has a role in this – that the voluntary sector does have a role in the development of the target system, in the struggle for the solutions and compromises serving the more efficient operation of the state.<sup>31</sup> New institutional forms of interest reconciliation have come into being, which include work and non work related activities. Although the European Union has no directives regulating

interest protection and social issues, certain recommendations have been formulated<sup>32</sup>, wherefore, during the development of the institutional system of interest protection, which also includes the voluntary sector, it is worth studying the practical examples and experiences of the EU Member States. An institutional system integrating economic and social interest protection has been functioning in each country of the EU 15 for decades. These organisations bring together those social, public life and scientific forces whose cooperation is indispensable for *national consensus or agreement in issues that are closely related to the development and implementation of the national strategy.*

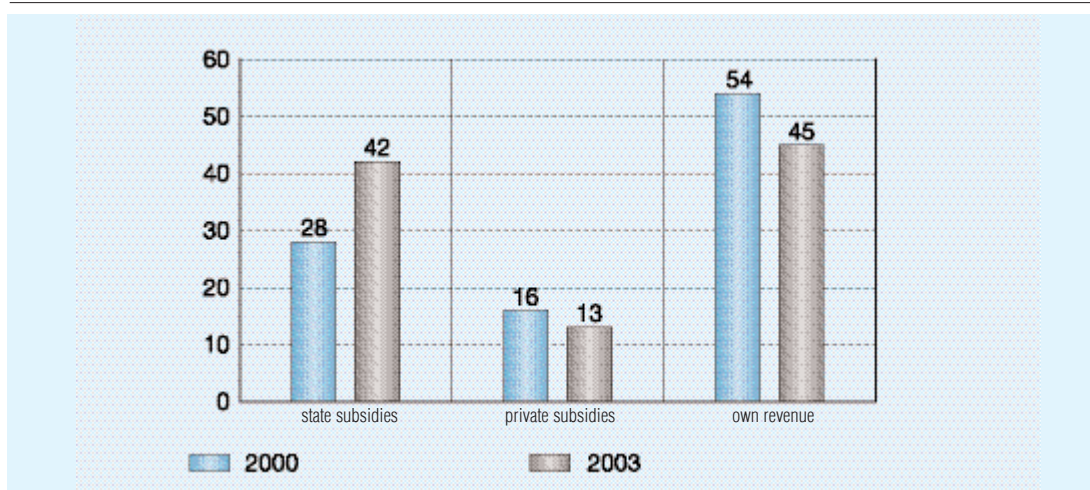
In Hungary, the development of the voluntary sector has been characterised – practically since the year of transition – by quantitative growth<sup>33</sup>, and at the same time, strong party affiliation and ideologisation. The different financial aspects, subsidies obtainable in various forms and public funds largely contribute to the dominant quantitative development. Specific interest representation has been assumed by those organisations that – appealing to the protection of human values and environmental interests – have become the “official”, self-propelled opponents of party politics and the economic interest representation bodies. The voluntary sector, and the number of non-profit organisations that can be more easily approached statistically, and that mostly cover the voluntary sector, or at least exist in parallel with that, grew the most dynamically in the period between 1989 and 1995.

Yet, it can be concluded from the survey conducted so far that the greatest obstacle to the substantive operation of voluntary organisations in today's Hungary is the *lack of real – financial and material – independence.* This is primarily due to direct or indirect political connections, the preferential treatment of ideological aspects, indirect interest based ties, as well as financial dependence (*see Chart 1*). It can be

Chart 1

**REVENUE SOURCES OF NONPROFIT ORGANISATIONS**

(%)



Source: HCSO (2005)

assumed that the party, state and government dependence of organisations that have received larger subsidies is greater than desirable, which could be confined by increasing the sources of own revenues. It is important to stress this, since the operation of organisations “under the centre” is jeopardised not only by this type of dependence, but also by the fact that after the withdrawal of central funds, these organisations will become dependent on the corporate sector, on the internal or external private sector.

It is related to the latter that at the same time the public, the governmental sector cannot withdraw from the competition and rent seeking activity of the different economic interest groups, or interest representation voluntary organisations. This factor has a specifically important role in the Hungarian public sector, wherefore it is inevitable to regulate it in the future. For the achievement of this goal it should not be allowed in the cooperation of the public and the private sectors *that state orders (e.g. outsourcing and PPP programmes) are awarded on the basis of political aspects*. They should exclusively be judged by professional, cost-efficiency, i.e. performance indicators, and

these aspects must be fully enforced. The situation is especially dangerous when rent seeking and party financing meet.

**POLITICAL CYCLES AND THE LONG-TERM COMPETITIVENESS OF THE PUBLIC SECTOR**

Economic policy decisions that accompany the changing of governments and that affect economic policy decisions also belong to decisions influenced by (election) interest groups. There are certain phenomena and effects that are related to them and are typical only for the election years, wherefore they cause additional costs and losses in economic development. The overhead costs of the changing of governments come not only from the changing of the political elite, but also from the discontinuity and “sunken costs” of the different projects. Negative phenomena can also be found in the management of public funds in said periods that can be accounted as losses at the level of the national economy.<sup>34</sup> From this point of view three areas must be given special attention:

- analysis of changes perceived in the macro-economic processes in the election years – or around those years – by presenting a few characteristic macroeconomic indicators;
- analysis of the budgets of the election years partly in terms of deviation from the plan, and partly in terms of changes in certain subsidies, and finally
- presentation of the “fate” of investment projects spanning several governmental cycles, and that of losses due to the changing of governments.

For illustration, we hereby cite a few facts. Real wages in Hungary always grow at a higher rate in the election years than in the years preceding or following the election years<sup>35</sup>.

Governmental investments typically show a strong correlation with the election cycle. The value of investments grew by 15% in 1994, by 32% in 1998, and by more than 23% in 2002. In addition, government investments spanning the election cycles were accompanied by significant losses, since investment projects initiated or commenced by the previous government were dismantled, terminated or postponed.<sup>36</sup>

At the beginning of this article we expressed our thoughts about the content and relationship of party politics and public policy. Our main conclusion was that the shaping of public policy cannot be subordinated to the politics of the governing party. *We can supplement this statement with the fact that public policy is the rational mixture of party politics, the adaptation needs driven by the external environment, and the influences of globalisation.* The minimum consensus among the parties is also a precondition for the short-term implementation of the public policies. It is all the more true for public policies that can be implemented only through the coordinated measures of several governmental cycles. *If no consensus is reached by the potential governing parties about the basic, long-term pillars of the public policy reforms, the subsequent parties of different composition will – as*

*indicated before – destroy and reverse one another's results instead of fostering systemic construction.*

The institutional system and its operation, and funded state tasks are determined by the political compromises that were cast in stone in 1990 (local governmental and public administration system, social security, political election system and the related stakes). These compromises, while providing the operational stability of the society and the economy, have made the system rigid and unmoveable under the given relations of political forces. Therefore, *a new compromise is needed, one that is based on social consensus about the measures required for the improvement of competitiveness*<sup>37</sup>.

The efficiency of the public sector and public administration is largely influenced by the changes in political cycles, wherefore hereby we briefly present how the elections held every four years since the year of transition, and the concomitant changing of governments affected the long-term sustainability of the operation of the country. This issue is basically influenced by the relationship and the change in the relationship between party politics and public policy (professional policy).

Each party that has come to power (government) so far has declared the priority of public policy, and claimed that it would subordinate its party politics to public and professional policy. In this analysis we do not intend to present in detail the success or failure, straightness or tactical nature of these political declarations, since such measurements are difficult if not impossible to perform. In our approach we have used a method suitable for analysing the changes brought about by the individual (four-year) political cycles in certain areas that demonstrate the efficiency of country operation, and which makes it possible to mediate certain social judgement.

On this basis, the following major summary conclusions can be drawn:

- As far as the governments' activity is con-

cerned, in each period preceding parliamentary elections *the judgement of the government's activities (trust index) rapidly improved as a result of the election promises until 2006. It is also typical that this trust suffers a major setback in the first year of governmental activity.*<sup>38</sup>

■ In the election years of the past more than one decade, the growing deficit of public finances *has caused major surplus funding needs* – compared to other years – which can be supplemented with the fact that the peak values of deficit in the election years have become higher and higher. This is evidently a consequence of “irrational” party support and governmental giveaways immediately before the elections.

■ The path of privatisation revenues shows a similar picture in many aspects. The trend-breaking effect of political changes suggests not only the change in cycle, but also contentual correlations, i.e. the outstanding revenue peaks in 1995 and 2004 indicate several correlations. On the purely economic side it is evident that a higher budget deficit stimulates higher privatisation revenues, or at least provides a theoretical background for that. However, the privatisation trend clearly shows *the relations to different economic policies (professional policies), the different interest and target systems, as well as the different relations to the internal or international fields of force.* The privatisation trend also shows that the transformation of party politics into public policy may be difficult not only because of the lack of political will, but also because *the different value and interest systems may actually imply characteristically different professional policies.*

Naturally, it would be a mistake to assume or actually expect the lack of politics behind the changing of the cycles. The parliamentary multi-party system is characterised by continuous political opposition, and on the other hand, the opposition is naturally responsible for holding the power on leash. However, these oppositions must stay in the plane of party pol-

itics, they cannot influence or reshape professional policies. However, the breaking of the lines, the fluctuation of the curves of activities and results reinforce – by themselves – the real experience-based assumption that in the Hungarian reality *party politics directly (from the side of the power) and indirectly (from the opposition side) excessively dominates the social and economic sectors and processes. This has an unfavourable effect in general, but especially adversely influences the development and enforcement of realistic public policy.*

## THE PROFESSIONAL FOUNDATIONS OF PUBLIC POLICY

Successful public policy can exclusively be based on stable and real professional foundations. Parties do not have the expertise and the personal background for integrating their objectives and preferences into public policies, or transforming them into governmental measures and legal regulations. Therefore, the precondition for successful public policy is a well-prepared public administration staff, as well as the development and maintenance of trust between the political class (elite) and public administration. This trust-based relationship must first of all be built on the fact that the minister, the ministry and the ministry staff alike must work along the government's programme aimed at serving the public good, i.e. they must not serve (short-term) party politics and party power interests.

After the year of transition, each Hungarian government or political force in power – but the winners of the 2006 elections – emphasised in theses and principles that its basic goal was (is) the separation of politics and the public sector (public administration), i.e. ensuring the independence and continuous operation of the public sector on a professional basis. This means (or would have meant) the establish-

ment of public service free from daily party politics, party interests and ideologies, in which system the highest political, governmental (ministerial) management level is separated from the level including the public administration state secretary and the entire staff of civil servants working (operating) under his guidance.

### Public administration as the shaper of public policies and the coordinator of the implementation thereof: the established model

Following the European democratic traditions, the ministerial model assumed in Hungary at the time of the democratic transition separated the narrow political leadership of the ministry (minister, political state secretary) from the civil servant staff, which is politically non-committed, but loyal to the current government, and which is managed by a definitely non-party affiliated public administration state secretary. However, with a few exceptions, the separation of the political and public administration management at the state secretary level hardly worked in practice. One reason behind this is that the political management of the ministry could not be ensured by two political leaders for objective causes either. They needed committed co-workers that directly supported their work. This need was later taken into account by a subsequent amendment to an act, which created the possibility of using the services of political (senior) advisors. However, a major cause of the infiltration of politics into the public administration management of the ministries was that the governments in office (save for a few honourable members of government) could interpret the necessary trust-based relationship between the political and public administration leaders – at the given level of general and party culture – only as a personal trust-based relationship (meaning “my man”,

“our man”). In fact, the trust-based relationship between the political and public administration management of the ministries should not be built on personal acquaintance, but rather, and first of all, on the fact that both management teams are *working for public good, for the implementation of the underlying governmental programme, and are really able to successfully implement that.*

The separation of political and public administration management at the state secretary level also meant that conflict between the two levels was confined to one job, i.e. pursuant to the law the ministries' staff could have worked under professional guidance, without political conflicts. Therefore, the selection of the public administration leaders on the basis of personal (political) trust has not only led to the fact that persons lacking adequate experience in public administration were appointed to the highest public administration positions of the ministries, but also to the fact that the boundary between the political and public administration management was pushed one level downwards in the organisational structure of the ministries (to the level of the senior department heads or department heads). Consequently, the interface between politics and public administration affected several jobs, single-channel management was disrupted, and the professional and political requirements were mixed at several management levels of the ministry. Due to “importing” public administration top officials, it was not possible to establish a staff of public administration executives that could have “translated” between the political and public administration management without being affiliated to any party. This has naturally led to a “silent dialogue” between party politics and professional policies driven by reality.

*The stability of public administration is not a value in itself, but a token of successful public policy.* Successful public policy is more than party politics in that it spans governmental cycles, –



among other things. This continuity of public policy can be represented and enforced by stable public administration. It is difficult to decide whether it was the lack of stable public administration as a result of which the subsequent governments hardly kept anything from the creations of their predecessors, or on the contrary, the complete rejection of the policy of the former governments by the new governments has led to distrust in the public administration executives involved in the shaping and implementation of said policy.

The relative stability of public administration – which we have referred to above – has one more importance. In today's increasingly knowledge based society the public administration staffs' knowledge is not sufficient for the shaping and implementation of successful public policies. It is indispensable that the theoretical and practical experts of the related fields, and the representatives of the parties concerned (professional and voluntary organisations) be involved in the preparation of decisions. The creation of the formal forums of agreement is only one of the important preconditions for efficient involvement. The possibilities of informal agreement based on personal ties are of equal importance. The lack of stability in public administration management disrupts especially these relationships, and prevents the really effective dialogue between the regulators and the regulated.<sup>39</sup>

### New model?

A part and also a key area of the public sector reform in today's Hungary is the reform of public administration. Public administration is the top management of the public sector. Its dysfunctional operation has a spiralling effect on the entire public service system. The public administration reform can eliminate said malfunctions by clearly separating the scopes and

tasks – including the horizontal and vertical aspects alike – *by placing the planning system of the national economy on strategic foundations, and the inclusion of a strong governmental (internal) controlling function. The number of decentralised state agencies must be considerably reduced*, and thus one of the causes of the lack of coordination can be eliminated. On the other hand, during the real decentralisation of governmental functions such institutional or funding solutions must be used that can eliminate both the party political pressure, and excessive rent seeking by the different interest (sectoral) groups, i.e. that are able to lay the foundations for the more efficient operation of the public sector, and can thus contribute to the improvement of the competitiveness of the national economy. Answering all these questions is indispensable for the compilation, and especially the implementation of the public administration reform, and the improvement of the efficiency of the public sector.

Following the 2006 elections, it has become a principle, too, to openly undertake the extension of political influence in the ministries, which is certainly a step forward compared to the sneaking methods of political “preying”. At the same time, however, this open admittance soon revealed certain deficiencies of the new model: the termination of the single channel management of the public administration staff has led to serious coordination failures, and the conflict between the political and public administration staffs on a wide front has caused significant friction losses. The lack of stability in the public administration management may become critical during the changings of the governments to come. In the long run, the “killing” of the public administration life path may also have an adverse impact: the civil servant career path ending at the level of senior department heads may discourage the most talented young professionals from choosing the civil servant career.

The road from party politics to successful public policy also set the requirements for public administration in the ministries. It is inevitably necessary

- to separate political and public administration positions at the level of legal regulations and in practice, too;
- to ensure a single channel management for the public administration staff;
- to create the (stable) employment conditions for public administration (professional) managers throughout multiple governmental cycles.

## ONE MORE TIME ABOUT A FEW IMPORTANT CONDITIONS AND TASKS

### The possibility of political consensus

The political elite – no matter which party is in power – must always start out from the fact that in a country, which operates in a balanced manner, stands united in the main objectives and is driven by rational, *the selection of a consciously prepared scenario*, and the concomitant actions (that are well thought over not only as a whole, but also in terms of the order of the subsequent steps), *is basically a professional issue*, and not a question of power or politics. Consequently, it is both a possibility and a necessity to create political consensus, learn about the social expectations, develop strategic objectives, as well as make and program decisions. The possibility would be significantly enhanced if in these processes and decisions a primary role was attributed to the expert opinions, and if they were not determined by purely daily political considerations, or more importantly, instantaneous power interests. To this end, the professional character, the professional expert basis must be stabilised in line with the above written.

With a view to ensuring the competence and long-term perspective of policy making, it is

very important to clarify how to *expand social participation in decision-making* in a way in which the government considers both the opposition and the real civil society as partners. The establishment of such partnership could be fostered by *concluding a social and economic agreement*, or social contract about the objectives of the development and reform policy, as well as about the development and operation of the institutional system serving this purpose. Another extremely important requirement in this field is that *political forces should not “block” social, economic or development processes and reforms by acts requiring two thirds of the votes*. The third field of action (or maybe the first in terms of importance) is – we believe – *the amendment of the constitution*, since the constitutional requirements obstruct the possibilities of the government from several sides. Within this framework, the state's role can be reconsidered again, certain social minimum conditions and norms can be determined in relation to the basic rights, and all fields that require constitutional regulation (e.g. public finances, etc.) can be included in the Constitution. At the same time, the group of acts requiring two thirds of the votes must be significantly reduced.

Finally, it is an important task (and is also one related to and arising from the above written) to determine – by considering the requirements of globalisation – the frameworks of state redistribution, the necessary and reasonable level of the presence of and intervention by the state, and to reduce taxes and contributions as much as possible on the basis of economic growth. This framework makes it possible to determine, reasonably reduce or increase the tasks to be funded by the state, and initiate a shift in proportions among the funded objectives that give preference to the requirements related to the development of international competitiveness, education and training, and environmental protection versus direct production costs or discounts.

We reiterate that the reasonable and well thought over limitation of the presence of or intervention by the state assumes the *reconsideration of the state's role*, and in line with this, *the clarification of the content of state tasks* on the basis of a social and political consensus and new compromises. It is evident that the different action scenarios require public finances with different structures, foci and income centralisation. On the other hand, the interactions require the state to apply coordination mechanisms with different contents in each scenario. On this basis we can draw *two conclusions*, according to which

- although there is consensus about the fact that *profound reforms are indispensable* in several basic fields of the public sector, the chances of implementation are slim despite the fact that regarding the long-term and not instantaneous interests, the future of each party depends on the success of the

reforms, (i.e.) *the implementation thereof is in the real interest of the parties*;

- therefore *it is necessary* – better sooner than later – *to have a dialogue in issues affecting the fate and future of the country*, and this is most probably possible on the basis of professional policy, by the harmonisation of professional policy intentions, and by the systemisation thereof. It is on this basis that political compromises can be found, consensus can be created and thus give way to the changes *as a specific social contract*.

However, clear political orders are needed for the determination of the professional foundations of public policy, too, since the logical sequence that includes concept shaping, the determination of the legal and organisational frameworks, funds allocation, human resource conditions, and finally communication support cannot be built without them.

## NOTES

<sup>1</sup> These include: historic endowments and traditions, and the strength of the social cohesion, which is also determined thereby, social receptivity, tolerance towards the new, adaptation and value preservation vulnerability, political-cultural and management efficiency /cooperation (public administration and governmental professional conditions provided by the institutional system), as well as the impacts of global competition, the world economy, the operation of international organisations and integration.

<sup>2</sup> Árpád Kovács expressed his thoughts on this issue in detail in the consolidated 2005 issue of the Public Finance Quarterly, and in the 1/2007 issue of the OECD Journal on Budgeting (Competitiveness and Public Finances).

<sup>3</sup> The efficiency of public administration had been studied in Hungary by prominent scientists at earlier times, too. See Zoltán Magyary's (1942) and István Bitó's (1947) works.

<sup>4</sup> The first stage of the public sector's reform – 1989 through 1995 – tried to meet the basic requirements

of the transition to the market economy as much as possible. Here we would like to refer to the studies written by Attila Ágh and Pál Tamás, which analyse this topic in more detail. See: Ágh, A. (2006 and 2007), Tamás, P. (2006) and Tamás, P. – Bulla, M. (2006)

<sup>5</sup> We must also note that while the technical conditions are given, longer life does not go together with the wide-scale guarantee of the preservation of the quality of life, which will certainly generate new, so far unknown social problems. According to the calculations, the solution would require funds that are an order of magnitude higher than the current expenses, amounting thousand billions of dollars. See the book by József Dézsy, which was published in Hungary, too (2006)

<sup>6</sup> The complete marketisation of the social sphere is realisable from the aspect of social (public finance) funding, or is not counter-productive against the announced real economy objectives of burden reduction, if at the social level the use of the different forms and levels (quality) of supply is not

identified with the question of “choosing from the supply” – in contrast with the promises – but rather with creating individual chances in a smaller field, and in parallel with that, with the reduction of the general level of services and obstructing access to such services. The foundation – optimisation – of newer and newer responsible decisions targeted at the undertaking thereof, and/or the search for other alternative solutions first of all require risk analyses considering all social and economic conditions and interests.

<sup>7</sup> See for example Szamuely, László: A “haldokló” jóléti állam az 1990-es években, *Közgazdasági Szemle*, Volume 2004. 51. Issue 10, page 948, and pages 967–969 (The “dying” welfare state in the 1990s)

<sup>8</sup> By public administration we mean the function group of general public services defined by the international statistical methodology (COFOG Eurostat), and the related expenditures.

<sup>9</sup> In this study we wish to deal neither with the often emotional politicking and resistance that goes back to “the communist past”, and exists on an irrational scale, nor with the strong dominance of politicking based on personal relations linked to that era, albeit we are aware of and acknowledge the weight thereof.

<sup>10</sup> See the studies by Ágh, Attila (2006 and 2007).

<sup>11</sup> See the thematic issue of the *Public Finance Quarterly* (2/2007)

<sup>12</sup> For more details see the study by Jenei, György in chapter 6 of SAO RDI, 2007

<sup>13</sup> Attila Ágh (2007) outlines two large institutional reform waves: the creation of the general framework of the democratic state, and the subsequent reform wave aimed at convergence. András Körösnéyi (2006) analyses the period of transition and the reforms in the context of the entire constitutional system and governance.

<sup>14</sup> On the Hungarian privatisation see the study prepared by the SAO RDI, namely by Báger – Kovács (2004). The links of the political sphere to foreign investments, enterprises, property acquisitions would require a new and longer study. Therefore, we do not undertake this analysis in this article.

<sup>15</sup> In relation to this question a similar standpoint was taken by István Stumpf, too, at the VIth Financial Summit held in Budapest on 31 August 2007

<sup>16</sup> Naturally, these criteria could be met neither by the convergence programme, nor by the so called “national” development plans that were actually compiled by governmental agencies and had only limited social and political legitimacy.

<sup>17</sup> For more details on these issues and the theoretical and practical correlations in economic policy see: Práger, L. (2004)

<sup>18</sup> The public administration reforms of the transition were implemented in two stages. Steps undertaken in the first stage of the reforms: 1. Adoption of acts creating and regulating the democratic institutional system (constitution of the republic; election rules; Constitutional Court; local governmental system; parliamentary commissioners of citizens' rights and special commissioners; separation of public service and politics; right to initiate court proceedings against public administration decisions); 2. Review of the system of legal regulations inherited from the communist regime, elimination of unnecessary regulations; 3. Launch of the new legislative procedure within a planned framework. The second stage of the reforms includes efficiency and quality reforms.

<sup>19</sup> In his work titled *The Crisis of Global Capitalism Reconsidered* (2002), George Soros devotes a long section to the threats of the omnipotence of the market and its impact on the organisation of the society.

<sup>20</sup> The enforcement of the principles described in the study is fostered by techniques introduced (applied) in the developed western countries and the Member States of the European Union. See for example: “Budgeting in Hungary” OECD (2006) and Báger, G. (2006)

<sup>21</sup> the one and a half decades of democratic transition, the social and economic structures that have established by now, and the interacting fields of force – in which the different levels of public administration are located, or on the contrary: are affected – were largely determined by the privatisation process. See: Báger, G. – Kovács, Á. (2004) and Kovács, Á. (2005)

<sup>22</sup> When analysing the chances and paths of convergence we may also start out from the fact that “the strengthening of solidarity, the relative lack of conflicts in the society is a driving force boosting economic competitiveness”. The accentuation of the principle of solidarity clearly means the connection

of the different layers of the society and economy, the emphasis on the role of the individuals. [Kovács Á. (2005)]

<sup>23</sup> According to the statistical figures of the European Union for 2004, the gross annual wage of employees working for industrial and service supply companies in the EU 15 countries was EUR 40,954 in Germany, EUR 41,253 in the United Kingdom, and was higher than EUR 15,000 even in the poorest Member State, i.e. Portugal. From among the new Member States that joined the EU in May 2004, employees in Hungary earn EUR 7,099 on average, only EUR 3,805 in Latvia, and less than EUR 2,000 in Bulgaria. The average differences measured in the earnings of EU 15 citizens (employees) were not more than 2.5 times, while in the EU 25 (after the accession of the EU 10 countries) they have grown to over ten times. At the beginning of 2005, the monthly minimum wage was EUR 1,210 in Belgium, EUR 1,265 in the Netherlands, EUR 1,197 in the United Kingdom, over EUR 400 in Portugal, while among the new entrants it was only EUR 232 in Hungary, EUR 116 in Lithuania, and merely EUR 80 in Bulgaria and Romania. These are striking differences even if we take into account that the nominal exchange rate and the purchasing power of the euro differ from country to country.

<sup>24</sup> The financial assets and competencies of the areas (counties) are so much limited that they are not able to build considerable public administration power. This situation is aggravated by the fact that cities with county rights, i.e. all county seats fall outside the counties, and represent an independent control system.

<sup>25</sup> In the European Union there exist several local governmental models on the basis of which extremely diverse local governmental structures have been formed in the individual countries. The Northern European or Scandinavian model (Great Britain, Scandinavia, northern part of Germany) included a strong concentration in the 1960s and 1970s. In the Scandinavian territories 6 to 10 settlements were brought under one local government. As a result, the average population under a local government is 10,000 to 30,000. This average population is 120,000 in England. The Southern European model (France, Spain, Italy and Greece) is characterised by a fractured local governmental system. In France the average population per one local government is around 1,600. Today already all settlements, including the

smallest ones, have their own local governments in Hungary.

<sup>26</sup> By the middle of 2006, as many as 168 small regional associations were set up with the involvement of nearly 2,000 settlements. Nearly three quarters of the administratively registered regions function in reality, however 48 small regional associations exist only on paper. Most cooperation (70%) occurs in the fields of healthcare, social care and education.

<sup>27</sup> Nearly 50 per cent of local governmental revenues comes from central budgetary subsidies, and over 17 per cent comes from the share of the PIT left at the local governments. Although the nominal value of typical local governmental revenues has been growing (by over 40 per cent between 2000 and 2005), their ratio to the total revenue has been decreasing (from 24.5 per cent to 17.9 per cent in the given period).

<sup>28</sup> See: A győztes pártok emberei. *Világgazdaság*. 19 October 2006 (The men of winning parties)

<sup>29</sup> Based on the previous chapter it can be mentioned as an example that coequality and independence can hardly make their ways through the system of connections among the centre, the intermediate (regional) level and the municipal governments. Obviously, the underlying causes include economic conflicts of interests among organisations, institutions or even employers-employees. However, the main reason is the unresolved opposition of public law and funding independence.

<sup>30</sup> The relative portion of the Hungarian population that is directly linked to labour has drastically reduced recently, especially in the period following the year of transition (until 1998 by more than 1.5 million), and in the subsequent one and a half decades it remained at that low level with certain fluctuations. In 2005, the number of employees totalled 3.9 million. According to the analysis of the HCSO, a great portion of those 2.5 million people that are not actively connected to the economy or the world of work, are no longer able or willing to work (HCSO, 2006).

<sup>31</sup> This is indicated by the fact that the Economic and Social Council was set up earlier parallel to the National Interest Reconciliation Council, which comprises only economic actors (and whose operation was suspended in certain election cycles). The composition of the Hungarian Economic and Social

Council is obviously “overweight on the economic end” (employees, employers and other business organisations are jointly represented by more than 50% of the members), yet, scientific organisations and voluntary organisations are also considerably represented in the Council.

<sup>32</sup> The document titled “The reform of European governance from the perspective of the voluntary sector” (see Nemoda, I.) lays down the general aspects of cooperation between the two sectors. These aspects are the following: involvement of the citizens in the preparatory process of decision-making; up-to-date, online information supply at each stage of decision-making; cooperation between the municipal and regional governments, as well as the civil society; regular dialogue through and among the local governments, and the national and European voluntary organisations; development and publication of the minimum standards of consultation; conclusion of partnership agreements on the basis of openness and representativity.

<sup>33</sup> In 2003, 53,022 such organisations (organisations registered as voluntary organisations) functioned in Hungary. Forty per cent of them operated as foundations, while the others were corporate nonprofit organisations. See the major findings of the data collection carried out by HCSO (2005) about nonprofit organisations for 2003.

<sup>34</sup> We interpret losses in the broad sense of the word, i.e. we consider as losses the growth in public finance deficit, and in state debts due to the former, as well as profits and revenues unrealised due to cancelled or protracted developments, societal damage, etc.

<sup>35</sup> In 1994, the per capita real wage grew by 7%, or by 9.1% in the budgetary sector. The increase was even more striking in 2002: it equalled 9 and 20%, respectively. The change in the real value of pensions also speaks for itself: in 1994 it grew by 5%, in 1998 by 6.4%, and in 2002 by 9.9%. Each year following the election year witnessed a setback.

<sup>36</sup> It is enough to refer to the fate of the National Theatre project, or the hectic nature of motorway construction, and at last but not least the start of road maintenance in the summer or at the end of the summer. The protraction of the construction of metro line 4 is a good example of how investment expenses (costs) are inflated. Originally, the funds required for the first section of metro line 4 totalled

HUF 168 billion (rounded value) at 2002 prices. The 2003 budget already contained an appropriation of HUF 195 billion, also at 2002 prices, with the same project content (SAO RDI, 2006). Based on this, it is no wonder that the deficit of the central budget has regularly hit record highs in the election years, and this record has even increased chronologically. It would be disappointing if the trends of the different state subsidies did not fit in the picture – but they do.

<sup>37</sup> To support this, let us bring a single example. Since 1992, the governments have accepted around 30 resolutions targeting the restructuring of public administration or a certain segment thereof. Partial results were unquestionably attained in several fields (e.g. technical operation of public finances, certain IT developments, approximation of law). However, these results remained isolated from one another, and did not affect the entirety of state services and the institutional system. The underlying two major causes were as follows: 1. when the restructuring objectives were determined, the size of the required resources – time, human resources, managerial commitment, etc. – were not properly assessed, and the implementers had less than needed resources at their disposal on a continuous basis; 2. the adoption of legal regulations affecting the structure of the state required two thirds of the votes in the National Assembly, and none of the governments could secure so many votes, not on a single occasion.

<sup>38</sup> It is obvious: progress on the road from party politics to public policy would be indicated by the fact if the large waves of trust (trust index) would subside in a given period, and the path would converge towards a straight line. Such moments can be found if we examine the period of more than one decade, but they certainly have not become typical. *The underlying fact: the cyclicity of party politics could not give way to a balanced public policy* (economic policy, or national strategy in the broader sense of the word).

<sup>39</sup> It is worth looking at the international experience in connection with this. In the recent international practice, compliance with the ethics of public service, including the relationship between public service and politics, has been tried to be enforced with the help of acts and codes of conduct. On one hand, this indicates the democratic development of social expectations, while on the other it indicates the fact that the principles have not become a natural practice in the full circle. These

dilemmas are present not only in societies that have recently gone through the transition to democracy. In the US, the “citadel” of democracy, there is a traditional system of checks and balances. Yet, the problem of influencing public pol-

icy often occurs. A good example for this is the article of The Washington Post (2005) written on the reform announced by the Department of Homeland Security in connection with the performance-based pay of civil servants.

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