

Attila Ágh

The tasks of the developing state and the accomplishment of the democratic transition¹

INSTITUTIONAL REFORMS AND THE CONTRADICTIONS OF THE DEMOCRATIC TRANSITION

From the historic perspective of democratic transition, two major waves of institutional reforms can be discerned.

In Hungary, the first reform wave came in the late 1980s; as a result, the adaptive “Hungarian model” (entailing early political and economic opening and accelerated privatization) evolved, which brought about a decade-long considerable headstart for Hungary in the field of competitiveness. *At the outset of the democratic transition, the first reform wave established the general framework for a democratic state, yet it failed to go any further, and thus created two structural defects in the political system. The new democratic institutional system became, on the one hand, asymmetric and, on the other hand, fragmented. The highly developed macro-policy (that is, its high-level “institutionalisation”) was in stark contrast with the “underdeveloped” state of institutionalisation at the middle- and micro-levels. This asymmetry conserved excessive state power and, at the same time, the political system got fragmented into rival institutions that were not organically interlinked and/or even partially overlapped each other's competences. Furthermore, this twofold deficit*

led to a chronic and an acute lack of coordination, which brought about serious problems in the course of preparation for accession to the EU. Therefore, the launch of a second wave of reforms became imperative.

Albeit the second, catching-up wave of reform started in the mid-1990s and the beginning of each governmental cycle sees yet another try, the reform wave was blocked repeatedly and produced partial results only. On the whole, the second reform wave failed to fulfil its mission, that is, the full-scale establishment of a modern and efficient democratic institutional system. *The second reform wave yielded certain partial results, yet it finally failed to come about.* Consequently, international competitiveness started to decrease in the in the second half of the 1990s. This process entailed the preservation of the dualistic and heterogeneous nature of the socio-political system. On the one hand, the “dualistic” institutional system was preserved, because although the municipal sector was separated from public administration, no comprehensive reform was implemented in the local government sphere (especially in terms of financial decentralisation or the full-scale establishment of the NUTS system). Consequently, regional municipality units became highly dependent on state administration.

At the same time, the dualistic setup of the economy, entailing isolated development and modernisation (the uneven relationship of a modernised international sector and weak local enterprises), along with a dualistic society (social polarisation between those catching-up and those falling behind) subsisted. Indeed, the economic, politic and social divide widened and became a hindrance to the democratic development of the country as a whole. With Hungary's accession to the EU, this process manifested itself shockingly. Although Hungary was not properly prepared for accession, due to the higher requirements (the "EU burden") the capacity of the institutional system increased somewhat in the absolute sense, yet in the relative sense it decreased dramatically.

The absolute as well as relative institutional deficit (that is, the lack of political and administrative capacity, inherent or related to EU demands) was perceived as early as in the 1990s. Yet the differentiation of absolute and relative institutional deficit is of great importance in terms of adaptation to the EU structures and the building of EU capacity.

The absolute institutional deficit marks a historical backwardness as opposed to modernity and designates the fact that in the course of transition certain sectors grew weaker and/or atrophied. As for the relative institutional deficit, due to EU membership, the demand for new institutions and higher institutional capacity has grown to an incredible extent and the public administration system could not meet this demand. Although the second reform wave culminated low and performed poorly, it did increase "absolute" institutional capacity to a certain degree. However, as requirements and expectations rose to an even greater extent, accession brought about an ever-growing relative institutional deficit. Hungary's accession to the EU multiplied requirements concerning institutional capacity; in other words, the shortfall continued to

intensify in a relative sense. Now it is high time to accomplish and finish the second wave of institutional reform and to eliminate the institutional deficit completely.

At the beginning of the transition, Hungarian society inherited a massive economic deficit that was reduced through drastic restrictions. Thus the economic deficit was converted into a social deficit: it was "pressed down", as it were, to various social strata and regional levels. However, the antecedents of converting economic deficit into social deficit and the creation of "conflict containers" date back to the 1970s, when the financial management of the operation of institutions got separated from that of new institutions and projects; in other words, the functioning of institutions became permanently and chronically underfinanced. Then, in the 1990s, this effect intensified; because of budget cuts due to economic crisis management, the operation of institutions became even less financable; therefore, the tension between operation and development continued to grow.

A huge mass of conflict accumulated in the form of hidden, built-up economic and financing deficit and the resulting socio-cultural deficit. Thus the new democratic institutional system became a colossal concrete structure erected on sand – and without a lasting social establishment as foundation, it is prone to instability. At the same time, this vast mass of conflict is the most serious social obstacle and delimitation of any institutional reform, as it results in severe clashes of interest and in resource allocation clashes even in the case of minor reforms. The survey of this mass of conflict is the starting point for the planning of any social reform, as it is this survey that defines the priorities and feasibility schedule of crisis management.

For a decade, the "victory reports" of the transition period discussed the progress of the

macro-sector, as after 1997 the economy set off on a path of stable growth. Because of a return to (and later, a transcendence of) the 1989 level, it constituted a return to macroeconomic growth, while at the level of politics it brought about the macro-level establishment and the stable operation of the democratic system. In 1998, GDP reached the level of 1990; in the 2000s, strong economic growth continued. In 2006, GDP was 130 per cent of the 1990 level while inflation decreased rapidly. With the increase of real wages and old-age pensions, personal incomes were adjusted; however, it was not until after 2000 that real wages permanently exceeded the 1990 level. Nevertheless, macroeconomic development had severe deficiencies, namely, the prolonged current account deficit and the growth of the budget deficit.

Despite the above mentioned contradictions, macro-level changes were spectacular; nevertheless, in the 1990s, behind these changes there was an underlying a vacuum that characterized the other strata of the social system.

Hungarian society paid a great price for the transition, the evolution of market economy and the economic crisis management it entailed. A typical example of uneven development manifested itself. The economic deficit was converted into socio-cultural deficit, first of all because of the fact that fiscal recentralisation due to economic crisis management prevented joint institutional and fiscal decentralisation, that is, the reform of public administration and public finances.

As a result of the economic crisis management, “conflict containers” evolved in various social strata and at regional levels. Regional and social conflict containers evolved because deficit was decentralized and shifted to a lower level through a distribution of public functions without providing the proper resources. That is, the macro-level got separated from the development of the middle-level and the

micro-level; macro-economy and macro-policy “hurried forward” and overwhelmed them. For a decade, the Hungarian political system functioned in such a mode of operation where public services and local governments became peculiar conflict containers, and where national-scale conflicts were pressed down and fragmented. All the more so because, on the one hand, the majority of public services were relocated from the central and national levels to the regional municipality level without the allocation of proper resources, and, on the other hand, in terms of public services, a drastic budget cut was carried out on the central and national level.

In the early 1990s, the sums allocated for public services decreased dramatically, and reached the level of the early 1990s only in the early 2000s. By that time (from 2004 onwards) however, EU membership brought with it higher expectations; therefore, reaching the public service level of the early 1990s among the conditions of EU membership was but the return to a hopelessly out-of-date structure.

In the first period of the transition, the central government had to face a huge mass of political and economic conflicts; at the same time, the constitutional separation of the administrative and municipal levels provided politicians with a good opportunity for the atomisation of conflicts. The fragmented local level (NUTS5) became defenceless against state pressure which (in the spirit of democratisation yet under the banner of a merely formal decentralisation) delegated a mass of public services to the local level without the allocation of sufficient resources. Thus macro-level conflicts relatively disappeared or manifested themselves in a less distinct way. Instead, they emerged on the basic level of society markedly, yet in such an atomised form that they displayed a much lower level of pan-social crisis-triggering effect.

Macro-level development drained resources from the middle- and micro-levels. Consequently, in the perspective of decades, the financing of the local government sector, when compared to GDP and the budget, significantly decreased; along with it, the opportunities of local governments for providing public services underwent a similar change. In addition, fiscal recentralisation started to “drag” the budget of local governments, as state budget saw short, hectic periods of intensive crisis management when the resources allocated to self-governments dropped more drastically than before. As a result, the financial management of local governments became unpredictable and unplannable even within such a short period of time as a single year.

Conflict containers, however, did not evolve exclusively on the local level but came to characterise the full spectrum of regional organisations. As for the social aspect of the issue, due to radical cuts the strata ousted from employment and, at the macro-level, the large social and public services systems, started to also become conflict containers. The clash of the macro- and micro-levels in social development intensified when social cohesion grew weaker in both of the main senses of the word (social and regional).

Society came to the verge of collapse as certain social strata (in particular, the permanently unemployed) and regional units (small settlements and small regions) drifted towards hopeless deep poverty; without an efficient social aid programme there is no way back from social segregation. Social cohesion weakened, on the one hand, through a considerable polarisation of incomes and, on the other hand, through growing regional differences. As a general consequence, 20 per cent of the population live in regions where wages are exceedingly low and essential public services are missing. The islands of poverty, that is, the most backward small regions are in Northern

Hungary, the Northern part of the Great Plain and Southern Transdanubia, while the islands of affluence are in Central Hungary, Western Transdanubia and Central Transdanubia.

Obviously, social and regional polarisation is far wider than the problem of the geographically concentrated deep poverty, as approximately two thirds of the society and the greater half of the regions became temporary victims of uneven development. And yet without stopping and reversing social and regional polarisation it is not possible to establish the social capacity needed for catching-up with the EU. Although in the 2000's real wages started to catch up and social polarisation decreased to a certain degree, the divide between regions deepened and the resulting regional concentration of social segregation manifested itself more and more markedly.

SOCIAL DEFICIT AND CATCHING-UP WITH THE EU

For Hungary, accession to the EU brought about a turning point where, on the one hand, democratic transition had already used up its socio-economic and political reserves and, on the other hand, catching-up with the EU demanded an ever-growing social capacity.

Not only did the method of shifting losses down into conflict containers become unsustainable in social terms but it also paralysed the further development of the whole system (and thus the efficient functioning of the privileged macro-economy and macro-policy itself), because micro-levels became so weak that they are no longer capable of absorbing more conflicts. By now, the radical withdrawal of resources from the basic level of society, in other words, resolving macro-level contradictions through the creation of conflict containers at the middle- and micro-level of society, has become the greatest obstacle to develop-

ment, because the difference between state capacity and social capacity increased into a tension that hinders catching-up with the EU.

In the period of the accession negotiations, the enlargement of state capacity seemed sufficient. Yet, accession made it evident that, as a result of the state monopoly on the arrangement of the accession, the democratic deficit related to accession grew exponentially at the institutional and cultural levels alike. Because of the constant cutting back of resources, the social capacity indispensable for competitiveness within the EU is missing. The austerity measures implemented at the expense of the majority of the society, the sacrifice of the local government sector and the underfinancing of regional public services are no longer sufficient to solve budgetary problems. Consequently, it is not only political decentralisation but budgetary decentralisation as well that is a priority within the framework of EU requirements.

From the EU's perspective, Hungary is a deficit democracy, because regional and social institutions of the middle- and micro-spheres are not full-blown and they are defective, which drastically inhibits social capacity. The performance-centred legitimation of the democratic system is still missing; that is, the democratic establishment has not proved yet that it is capable of performing efficiently, i.e. it has not passed a great test for EU membership. In an advanced phase of development, competitiveness within the EU came into the foreground. Therefore, it is necessary to scrutinise the ways and means of the elimination of the conflict container system, where administrative reform and the reform of public finances are inseparable, because the fiscal reform is a central socio-political issue for the reform of the local government sector.

Although economic crisis management was in itself necessary, after all it had a harmful side effect: it paralysed and, in several respects, even reversed institutional development.

Since the beginning of the transition, in the last two decades the weakness and failure of the central government is conspicuous.

This situation is concealed by the fact that through constitutional prime ministerial governance, substantial political power is concentrated in the central government and, particularly, in the hands of the prime minister. However, as a matter of fact, in the course of transition Hungarian politics as a whole drifted rather than controlled the process. The decisions of the powerful government were scarcely implemented although still to a greater degree than in the other new democracies. The essential reason for the failure of the second reform wave is related to the economic crisis management and its drastic socio-political consequences. However, it was the spectacular failure of the implementation of governmental decisions that constituted an immediate reason that was clearly visible even on the surface.

The failure of the government was brought about by the natural initial weakness of an evolving democratic government and, above all, by the fact that it inherited a huge mass of conflicts, which brought about a situation where successive governments, always concentrating on the elections, adopted a conflict avoiding attitude. However, the postponement of the institutional reforms inherent in the conflict continued to deteriorate the socio-economic and political situation, which had an effect on the slow-down and paralysis of the second reform. Therefore, due to the weakness of the central government, in the course of the second reform wave the implementation of even limited-scale reform packages failed. As a consequence of the weakness and failure of the central government, the two forms of democratic legitimation (procedural and efficiency-related) came into antagonism in an increasingly marked way. In particular, in the Hungarian society the political system works in conformity with the rules of democracy (input legiti-

mation), yet it does so with very low efficiency, in other words, a performance-centred output legitimisation is increasingly missing. As for the actual functioning of the political system, this situation manifested itself in the fact that the central government “brought itself to ruin”, that is, it was incapable of implementing its own decisions. This was a situation observed by the EU in the case of all candidate countries and was termed a gap between decision and implementation.

The transnational institutions of the EU sense the lack of EU capacity mainly in the form of a chronic lack of the capacity to implement governmental decisions; therefore, they lay a great emphasis on the establishment of administrative capacity and, in general, institution-building in new member states. Nevertheless, EU politicians and experts do not perceive that the greatest cost of the transition (and, at the same time, the chief obstacle to the establishment of EU capacity) is the weakening of social cohesion and, thus, the decrease of social capacity. Yet it was the development of partnership and social capacity that would have been indispensable for the success of state and governmental decisions; however, due to the demobilisation of the society and the radically growing social deficit, social cohesion failed to evolve properly.

That is, quite paradoxically, the low-level productive capacity was caused by the traditional over-centralisation of the state, i.e. the excessive power of the state through the lack of social partnership, transitory state recentralisation and the resulting “sectoral dictatorships”.

As a consequence of the requirements related to the initial crisis management of the transition, state centralisation intensified, and, at the same time, it brought about the dominance of the sectoral principle and the loss of importance of the territorial principle in the field of public administration as well as in the budget. At present, in terms of budgetary and political

decision-making, the main obstacle to Hungary's competitiveness and development policy is the lack of decentralisation and the subsistence of the dominance of sectoral politics. The principle of the classic distribution-centred model is as follows: the resources are to be allocated to old (that is, extant) structures without deep structural reforms – indeed, sometimes instead of reforms. In Hungary, this model became manifest in the fact the resources were channelled to sub-national levels through the obsolete sector-based structures of ministries, which resulted in a double loss.

On the one hand, the sectors remained hierarchically organised, classic governmental structures (with ever-growing red tape, excessively increased headcount and an over-complicated system of background institutions), which became increasingly indifferent to the fast change of social requirements. On the other hand, the over-centralised structures totally ignored the dimension of regional development and regional differences, and, at the same time, fiercely resisted regional decentralisation. However, in conformity with development-oriented modern social policy, the development of public services, taking due account of socio-political aspects, is to be performed with a view to general economic development and, in particular, to regional development.

As the new approach of the Lisbon Strategy points out, the first necessity is to invest in human resources on a regional level (this being an optimum unit of regional development as well), and the dual goals of development and welfare are best served through the organisation of high-level public services.

Even a well-oriented passive distribution can have a development-related goal, e.g. the activation and mobilisation of certain social strata and/or age groups, because the preparation for integration into society in terms of generations (the elderly-the young) and regions (small

settlements) highly increases employment among the young or even partial employment among the elderly.

In this sense, family support and retraining (as social “involvement” or reintegration) have an effect in the field of regional development, as well, because they contribute to the elimination of poverty islands. Their results are clearly manifest when younger generations succeed in breaking free from multiple disadvantages, or, in general, in the reduction of social conflicts, in curbing crime, in social and regional catching-up and in the “unification of the country” instead of the present trends of regional and social segregation.

After the great democratic reform of the early 1990s, the objective of a second institutional reform is a shift to self-sustaining development, that is, the establishment of competitiveness on the basis of a self-sustaining social policy. It is self-sustaining, because it is dynamic, sustainable, self-financing and even profitable (cf. the Danish environmental protection industry, which brings profit and thus reproduces itself), while the former distribution system, based on a status quo attitude, has its evident budgetary limits. Thus, a sustainable social policy is needed which does not necessarily allocate larger sums for a given sector but finances it in a different way. In the case of Hungary, it is easy to point out the requirements of a development that is sustainable not only in terms of the economy but of society, as well. The practice of a socially sustainable development places the emphasis on two new aspects:

① a focus shift from sector-based financing to regional financing;

② instead of an individualistic, income-centred attitude, a collective development centred on public service comes into the foreground – the results manifest themselves in individual incomes, as well, but with a marked development-related aspect.

These two aspects – a turning towards regional focus and development – go hand in hand and reinforce each other. This holds true even in cases where “there is not much to give away” (i.e. there are strict budgetary limits), because there is no need to give “more” but rather to give what is there in a different way and to different places. When “there is plenty”, that is, financing is characterised by the existence of a breakthrough point for the implementation of the Lisbon Strategy, it is of even greater importance to launch a socially sustainable development policy.

The institutional deficit, i.e. the fact that the middle- and micro-structures were not established, manifested itself, among others, in the form of a chronic weakening of social cohesion and a drastic decrease in social capacity. Accession to the EU and efficient membership, however, requires that the contradictions of the transition be overcome, which, at the same time, is equivalent to the accomplishment of transition.

Yet from the early 1990s onwards, Hungarian governmental policy has failed to establish EU-type partnerships, shoulder the conflicts needed for development, or carry out the mobilisation of the middle sphere inevitable for successful conflict management; instead, it has been characterised by the paralysis of the middle level of the institutional setup, and the avoidance of conflicts. Thus in the institutional system the establishment and drafting of the seven-year plan requires reforms even in the short run.

In the post-accession period, the opportunity for Hungary's catching-up will persist for a decade – it must be seized. The fundamental condition of catching-up is to launch a second wave of institutional reforms in order to implement the seven-year EU catching-up plan successfully. The obstacles to the reforms and the conditions of surmounting these obstacles are already visible.

THE “NORDIC MODEL” OF THE DEVELOPING STATE

The task of a state focusing on development and catching-up, is the establishment of international competitiveness and EU capacity, in other words, the establishment of an EU-conform institutional system. *The fundamental question is how the Hungarian institutional system (now scarcely meeting EU requirements, i.e. endowed with a minimum level of EU compatibility) can be transformed into an EU conform system* – in other words, how to proceed from formal membership to effective (fruitful and efficient, successful and competitive) membership.

Having surveyed EU requirements roughly, first of all we must note that to plan an EU conform institutional reform an uncommon system of concepts is needed. First of all, the establishment of a national EU strategy is based not on the usual notion of state capacity but on that of social capacity, since competitiveness in the EU requires the active involvement of Hungarian society as a whole. The opposing concepts of government and governance (often analysed and elaborated in case studies in Western countries) suggest that state capacity, i.e. government, is insufficient without social capacity, i.e. governance, or the involvement of autonomous social partners. Therefore, a national strategy is not only to be “invented” from above but is to be established from below in the first place.

To establish my principles, I wish to make it clear that I do not accept the neo-liberal approach of the “small and cheap” state but use the concept of a strong, successful, service provider and development oriented state as a starting point. In Hungary, due to the continued under-performance of the public sector, a “state-phobia” evolved, as it were; frequently, statements of demagogical nature are made about a drastic curbing of the state's powers. Similarly, in the

last decade institutions themselves have suffered a huge loss of prestige due to their low efficiency and poor social effectiveness. Consequently, in public opinion those propositions came into the foreground which point out that a radical streamlining of institutions and the resulting savings will increase competitiveness to a great degree. On the contrary: a highly productive public (or, in general, institutional) sector is the main precondition and factor of international competitiveness. The state should not be limited but widened through radical reforms and its organic relationship with social capacity.

As a comprehensive survey and the international comparison of state functions show, there are two optimal forms of state functioning and they embody two different historical traditions. The Anglo-Saxon type of state performs a relatively low number of functions and draws on a low tax base.

The state type of the Nordic countries, on the other hand, performs extensive functions with great efficiency and relies upon a wide tax base. Nordic states have high-level state capacity and social capacity while also excelling in international competitiveness. Finland has been leading the list of global competitiveness for three years, and the first four on the same list include two other Nordic states, Sweden and Denmark. That is, the model that works as a way of optimisation suitable for Hungary is that of the Nordic EU member states where extensive state capacity was established through the highest possible exertion of social capacity. As a result, the state has fulfilled the task of the development and catching-up oriented state with optimum effect (cf. Finland) and, at the same time, reached maximum-level efficiency in the EU in terms of the functioning of the social system. In addition, Nordic countries (and Austria) serve as models in terms of active European policy. These relatively small countries of large capacity play a high-

ly active and initiative role in the EU and have a special importance that transcends their size and their proportional number of votes in the Council and in the European Parliament.

Thus a major lesson of the EU's history is that albeit small Nordic countries of extensive capacity are classic types of the developing state in a global world, their recent advantage is not to be found in their state capacity but rather in their social capacity. To put it more precisely, their large state capacity is indeed rooted in their exceptional social capacity. The Nordic countries lead the list of international competitiveness because their economic competitiveness is based on an extensive social security system and high-quality public services. This is called the Nordic model of state and social capacity and I regard it as a model for Hungary to be applied in a specific way.

Indeed, in highly competitive states economic competitiveness and social cohesion are not contradictory elements but factors that presuppose each other. Obviously, these Nordic features are to be implemented in conformity with Hungarian or Central European possibilities and specificities.

Thus it seems evident that in the perspective of 2015 Hungary has to approach the optimum point of the Nordic-type state; this is something that conforms to our own traditions, and, at the same time, to the requirements of catching-up with the EU. In the whole Central European region, the active and initiative role of the catching-up and development oriented state is highly needed, yet at the same time and quite paradoxically, until 2015 (full membership), it is the development and support oriented, and strategic organiser government that has to play a leading role in the deconstruction of the central political system and development policy of the state and in the transformation of the institutional system of public administration.

In the early 21st century, all basic functions of the state saw a decisive change. Due to the

compulsion of a continual adaptation to the global world, the state type termed “developing state” evolved.

In social science, all terms are reserved for a multiplicity of notions; many times, the previous term is a great burden for the new one. Previously, the term “developing state” was used by the World Bank and other international financial institutions to denote the states of those underdeveloped countries that succeeded in catching-up. In these countries, the state employed authoritarian tools successfully, and combined a radical opening to market economy and the practice of an all-powerful state.

The state defined directions of development and concentrated development resources, and thus was in control; while the successful catching-up was in process, it kept in check the masses who were pressed down to a low standard of living. However, developing states proper evolved in the highly developed (e.g. Nordic) countries and show similarities with the previous type only so far as that their essential objective is development, i.e. a radical adaptation to international competitiveness. It is a naive opinion that only underdeveloped and weak countries have to adapt to a quickly globalising world. On the contrary, it was the most developed states that raised awareness of the necessity to adapt to global competitiveness and the role of developing states, and implemented such concepts in practice.

In the global world, the animation of social and economic life through constant modernisation of the institutional system became the main role of the developing state. This is also characteristic of the public order and security function (the most traditional function) of the state, as traditional internal law enforcement and national defence are less and less capable of guaranteeing security. Even internal public order requires increasing global attention and development in the face of global terrorism. Very rarely does nowadays danger to national

security manifest in the traditional form of a military threat. Much rather, it occurs as an economic threat (e.g. energy shortage) or as the possibility of the outbreak of ethnic-cultural conflicts.

The state's activity in the field of social policy should rather be approached from the perspective of the development of public services and not merely as a narrowed-down social function, since even the reintegration of those lagging behind plays a role that is largely related to the development of economy.

In the Nordic model of an efficiently functioning state it is the establishment of interest in the development of the whole society and the functioning of the required high-level service infrastructure that play a crucial role in social policy. This policy is a wide public policy that stretches from a minimum-level reintegration in welfare to maximum-level development, that is, the establishment of a performance elite.

Modern market economies cannot function without the active involvement of the public sector, as the government does not “interfere with” the economy but is an organic part of it. It is the public sector that produces those special public goods which are indispensable for the functioning of the economy and society but which the private sector cannot or will not produce. The transformation of the government into an economic sector is closely related to the ever more valued yet transforming role of service sectors. In the information society, the main economic processes go beyond the private economy, because it is the creation and maintenance of the institutional conditions of the competitiveness of the national economy, regions and companies that have become the principal economic functions of the state. The revolution of information technology and telecommunication has re-structured the conditions of the functioning of each social field: beside the tertiary (service provider) sector,

there has emerged the fourth sector (i.e. the production of public goods related to development, science and informatics that guarantee sustainable competitiveness), and it is growing in importance. The development of the fourth sector is of major significance in global competition; the sooner we start, the faster we advance in the catching-up to the Lisbon Agenda.

In the age of globalisation, the developing state is needed everywhere. Germany's and France's recent crisis and prolonged recession are basically due to the fact that the state failed to fulfil its role of dynamisation or to shoulder conflicts for the sake of reforms, but merely served the status quo and existing interest groups.

The principal characteristic of the developing state is that not only does it stress the two traditional mechanisms that influence society as a whole (i.e. the regulatory and financing functions) but also lays great emphasis on the third mechanism, namely, institution building or, even more markedly, institutional reform. The first mechanism (the continual modernisation of the regulatory systems) also gained extraordinary importance, especially in the form of the fast and efficient adoption and successful implementation of the EU's regulatory systems. In the EU, this public policy adjustment and/or transfer play a key role; those countries have proved to be more competitive where this process took place to the largest extent possible.

Similarly, the role of the developing state is highly important in financing, especially in terms of the support of new public policy fields, in general, of the Lisbon-type tasks. However, in a continuously changing global world, it is of utmost importance that the developing state should initiate, promote and support institution building, the radical reforms of the existing institutional system, and the establishment of new institutions. And

this is what Germany and France (or in general, continental development that preserves the status quo) have missed markedly due to the resistance of well-established interest groups. On the other hand, a classical type of the developing state evolved in the Nordic region of the EU, while the Southern region is characterised by the opposite type: the one that is slow to react. The new member states, however, need not only a developing state but one serving both development and catching-up, because we are in a peculiar phase of catching-up with the EU, where the state has to work out and conduct national strategy.

THE JOINT ESTABLISHMENT OF STATE CAPACITY AND SOCIAL CAPACITY

The state is an organised executive power that extends to the whole country as a political unit. Yet the state is not the universe itself, as Hungarian public opinion and social science commonly fancy. As opposed to the state, the society is better and better at self-organisation.

Briefly: in 21st-century developed countries, two major levels of state and society are distinguished; therefore, we need to distinguish between government on the one hand, which is vertical and hierarchical in nature, and, on the other hand, governance, which is horizontal and characterised by partnership. Similarly, government capacity and governance capacity are to be distinguished, too. Yet on certain levels government and governance overlap increasingly; this is why their interrelatedness is to be analysed.

State organism and public administration have an upper ministerial-governmental level and a lower public-policy level in the sector of national bodies. Within the central government, these levels can be regarded as “concentrated” and “de-concentrated” levels yet via the system of regional public administration the

state level “reaches down” to the middle and micro-levels of policy. Organised society also has an upper, “centralised” and a lower, “decentralised” level; the former is termed social middle or meso-policy, while the latter is called micro-policy – both have their counterpart levels or “partners” in public administration.

Centralisation and decentralisation marks the two outermost points of decision making institutions, while concentration and de-concentration indicates those of the organisational system of execution, more specifically, its structure and mode of function. The centralised state is a condition where political decision making is monopolised; decentralisation, however, does not pass down functions within the state organisation but transmits or delegates them to legitimate actors of society, mainly to “the middle” ranks. Actually, social and regional actors at the middle level are elected and authorised decision making bodies of organised civil society. These bodies are able to involve the actors of public and private sectors in the total cycle of the public policy process. In the “middle part” of vertical-hierarchical public administration there are only “de-concentrated” organs that have certain autonomy in execution (albeit it is only the county departments of sectoral ministries that the present terminology denotes with this term).

According to the logic of various levels, centralisation and decentralisation, concentration and de-concentration can be simultaneously intensified through parallel processes. Concentrated decision making bodies and centralised bodies are equally needed (in the “upper” and “middle” spheres, respectively), along with a strong organisational and decision making co-ordination in the government and an efficient partnership arrangement and social openness in governance. Optimisation can be carried out this way, yet at certain regional levels (as well as in certain levels of public policy), the relationship of centralisation and decentral-

isation, concentration and de-concentration, government and governance should vary. Broadly speaking, the strategic fields of central public administration require intensified concentration and increased co-ordination, along with national-level strategic planning. In the case of the local and self-governmental public administration and public services, there is a need for adequate and radical governmental decentralisation, which presupposes the centralization of decision making, along with strategic development plans that conform to the given level. For the time being, until 2008, the main recipients of the decentralisation of tasks are regional development councils and then regional self-governments (in certain respects, the councils of small regions). Nevertheless, for the tasks to be fulfilled, the reinforcement of the recipients' administrative and financial capacity (that is, institutional centralisation) is needed, because the principal objective is by all means the substitution of the "sectoral dictatorship" of the central state public administration system with the self-organisation of regional units.

Our starting point for the establishment of the productive capacity of the development and catching-up oriented state is that administrative reform is indispensable for effective, successful membership and "good governance".

The principle of good governance is based, on the one hand, on the institutional system and, on the other hand, on the optimal establishment of public policy operations. The former presupposes that the institutions are EU conform; the latter postulates that member states adapt each other's "best practices" in the course of a learning process. This distinction also makes it possible to examine the problems of institutional systems and public policy operations as an elaborate mutuality, with special regard to the adaptation of EU models (institution transfer and public policy transfer), because in certain cases institutional adapta-

tion, i.e. system modification, is needed while in other cases "only" a change of functioning, i.e. public policy activity, is required.

This is all the more important because during the transition and in the first subsequent decade, the "more rigid" procedure, i.e. institution transfer was needed. In contrast, at the time of EU membership, it is the "more flexible" procedure, i.e. public policy transfer, and the fast adaptation and implementation of operation methods that gain importance. *Therefore, the optimisation of EU capacity (more specifically, of absorption capacity as the involvement of external EU resources and the utilisation of national resources) presupposes a joint establishment of public policy operations and the administrative-political system of institutions, along with the harmonisation of administrative and fiscal reforms.*

However, the two aspects of institution and operation/functioning cannot be separated completely. Efficiency that is based on high performance, i.e. the effective functioning of public policy, not only legitimises but also shapes institutions and, thus, a powerful, efficient and service provider state. Public policy transfer, however, does have its own limitations. Very often, it is not sufficient to adapt methods but an extensive and essential modification of the institutional structure is required.

Sooner or later, a mode of functioning that has been imported from a different type of institutional structure elicits structural assimilation, as well. In the case of public policy integration, the same process manifests itself at the national and Central European regional levels in the form of an active interaction of institutional and public policy factors. After all, co-operation in the field of public policy generates institutional changes in the course of time, and finally creates joint institutions. Accordingly, the level and form of centralisation and decentralisation should be approached from a different angle in each field of public policy, taking

into consideration that various fields of public policy require various levels to establish the institutional system that is in compliance with the given public policy.

To interpret EU capacity building, institutional capacity and cultural (human) capacity are to be distinguished. The two essential institutional and administrative preconditions to institutional capacity are a political management that is capable of taking the initiative energetically and can display a firm will (i.e. it can take the initiative and can make decisions), and central administrative capacity. The chain of planning-coordination-cooperation-execution (i.e. the ability to implement decisions efficiently) consists of political and administrative capacity, feasibility and a partnership in decision making. In these days, none of these is present. The state is still “bringing itself to ruin”, because no more than formal or “alibi” decisions are made, which are not implemented due to the failure of establishing the technical conditions of reforms and the incapability of arriving at the required political consensus. The fact that in recent decades government regulations and statutory orders remained no more than dead letters bears evidence to this process.

A major lesson to learn from the transition is that institutions are relatively easy to create yet it is much more difficult and takes a long process to make them work efficiently. Efficient operation is conditioned by cultural or human capacity.

Cultural capacity (“civicness”) is the sum total of cultural traditions (including erudition, conduct, behaviour and mentality); its natural basis is the institutional system of organised civil society. Human capacity, on the other hand, is related to formal education and specific qualifications and is easily shaped from the perspective of knowledge about the EU and command of languages.

In the accession period, the EU provided significant assistance in the establishment of institutional as well as human capacity; however, this could not counterbalance the ever-widening gap in culture, mentality and education, a consequence of the excessive roles of the state and the growing demands. If examined in the contrast of cultural capacity versus institutional capacity, it is clearly visible that there evolved a temporary “dual” bureaucracy (i.e. the one between EU oriented administration and the “remnant” national administration) even in countries of great capacity (typically, Nordic countries) where an extensive apparatus contributed to the preparation for the establishment of EU human capacity. At the outset, this type of division may have institution-related causes, yet afterwards it is the cultural reasons that start to predominate. Evidently, this divide is more prominent in Hungary and, consequently, more effort is needed to establish cultural capacity and thus to carry out a full-scale Europeanisation of the national administration.

NOTE

¹ This article is an abridged and updated version of the author's summary study on institutional reform, produced as part of the Hungary 2015 project. See Attila Ágh: *Institutional Reform – 2015, White Book, Hungary 2015 – Visions*, joint project of the Hungarian Academy of Sciences (MTA) and the Prime Minister's Office, *MTA Institute of Sociology, Budapest, 2006*