

NATIONAL UNIVERSITY OF PUBLIC SERVICES
Doctoral School of Public Administration Sciences

PhD Dissertation

Role of public benefit activities in the economy
– comparison of the intent of legislators and practice –

Thesis booklet

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1 Topicality of the issue

The starting point of my dissertation is public benefit activities. According to the regulation in Hungary, it is firmly linked to a level of participation in the provision of public tasks under the laws in force since 2011. In respect of international studies public benefit is not derived from services provided by municipalities or the state itself, but the similarities of public interest of civil service organisations, public benefit and the system of public tasks covered by general government are perceivable.

Deep study of public tasks therefore requires an interdisciplinary approach. This leads to the interpretation of the subject through fiscal, financing issues from the point of view of the state science. In doing so, the analysis of economic theories and processes parallel to that of state science is essential. Also an outlook to the economic circumstances has to be taken into account, which may have a significant effect on the role of the state.

In the focus of the disquisition the public benefit and public tasks are taken mainly from the aspect of public finances and management. These are key factors of the definitive background for public benefit activities, and also serve as defining elements of state functions. On the other hand, definition of public tasks and services are not clearly provided by law. Thus we need to identify the essential attributes that describe the subject and helps the formulation of the concept.

As an organizational framework, I analyse the state, while the economic approach is set by the implementation of the budget. Informational background is identified by accounting systems, and the legal environment. I also discuss the review of international studies and practices, analyse of available data, and make an effort to interpret the effects of global economic and national economic processes.

2 Objectives of the dissertation, problems analysed

System of public services, tasks, and public benefit activities cannot exist without a contextual definition of state and that of its positions and goals. As a major step in social development, the motivations in establishment of the organisation of state must be taken into consideration when examining of functions in operation. It is also important to examine how the philosophical framework and legal thinking has

evolved, how the emerging social processes resulted in newer state and economic theories, and also how they interacted. It is also crucial when observing the mechanisms that force humankind and European civilisation to change their theories created on the systemic operation of world economy. This means that nation-state concepts are tested by globalisation processes in a way that national economies cannot be interpreted as a separable entity any more but only as a part of a worldwide network. The ability to think in systems and network leads us to accept probabilities instead of confidence in the only truth, while this change in dominant paradigm requires new competencies and capabilities. The accelerating changes in the life of people make it necessary to increase adaptability, while technological advancement bares the promise of comfort, and prosperity for everyone. On the contrary, the reality brings us unprecedented inequalities and tensions, all of which necessitate a new way of open thinking and community-based cooperative action. But this is hindered by the unlimited and unconditional acceptance of comfortable solutions, desire of ownership and competition for popularity generated by individualism. At the same time, the effects outlined have an effect not only at the level of people, but also for the state that is intended to exercise the power derived from the people. This alters in its entirety and in its components also in accordance with the prevailing social needs putting a fundamental influence on the system and portfolio of state tasks.

The role of the state and local governments in providing services to citizens perhaps do not need an explanation. However, it may be an exciting question to investigate, what services are considered to be 'public' by the citizens that should be provided by the state or the municipality (or other levels of general government).

To judge what can be regarded as a public task is a complex question to be answered, as it mainly depends on the goals and intentions of the practitioners of power. But legal frameworks and financial opportunities have a profound impact on the country's operations.

In my dissertation I reveal the circumstances of organizing public services and the problems of public finance management. In order to mitigate the identified risk factors, suggestions are made, that cannot be considered an exclusive way, but offer a solution representing a feasible alternative to daily practice.

After reviewing the role and economic circumstances of the state, and examining the organizational issues of public tasks, the review of issues related to not-for-profit organizations is a key element. In my opinion they can be natural partners in rendering these services as they operate on a similar basis with similar mechanisms. At the same time several hurdles come in the way of cooperation. According to historic reason, NGOs do not have a century-long stable legislative environment in Hungary. Hence it could not yet gain the deserved role in the everyday life of people, or become a social norm. However, this cannot be an excuse, as every citizen is interested in using good quality public services. As in the case of the state and local governments there is a need to finance only the services based on real demand, also with cost-effective and measurable results.

The aim of my dissertation is not to present the evolution of non-profit theories, or the focus points of discourse, though this could also be a far-flung topic. Though some points of legal background of CSOs are highlighted relating my topic, the spotlight needed to be kept on the management of public services, and the possibilities of cooperation in the field. Times of fundamental theoretical debates about non-profit organizations in Hungary may have been completed, but there are still tangible questions about the demarcation of the civil sector. From the point of view of my thesis, the definition and assessment of public benefit, the public benefit status, the public benefit activity and the definition of the relationship with the provision of public service are of particular importance. Reviewing the transformation of legal background for NGOs of the past decades may lead to a feeling of the chicken-and-the-egg problem, although the cutting of the Gordian knot can be simple.

Finally, through the assessment of legal, economic and structural processes, I try to determine and measure the current position of civil society organizations in public service provision.

3 Structure of the dissertation

First of all, I investigate the state giving the framework and the context. In the absence of a general and exclusive definition for public services, state theories are analysed together with historical circumstances. In this way, economic theories and discussions of the given age are reviewed parallel in respect of tasks and services

provided by the state. After the analysis, I try to investigate the formation and phenomena of new power branches that make up or influence the state. This approach is inevitable since they represent a major influence also on the explicitly appearing and implicitly present social expectations, which serve as a basis for state tasks definition.

Analysis of the framework and origins of public tasks provide a firm foundation for further investigation. As an economist, I consider the examination of budgetary aspects to be a priority, also keeping related legal framework in the focus. The assaying of public finance and accounting aspects and human resource needs make practical problems come into light. In many cases, it may be necessary to deal with factors for which international good practice and Hungarian history are available. In other cases, I also consider the use of non-existent or widespread technologies. However, one of the most promising areas for increasing efficiency is the involvement of external partners.

As natural partners in the provision of public services, NGOs are presented, working on a non-profit basis and for the social needs. Serious results have been achieved: the cautious legislation following the change of regime has been replaced by a generic regulatory environment after several generational changes. In some issues, however, there is still no widely accepted consensus on the legislation and there are presumptions of regulation that are not motivated by philosophy or public policy. The topic of arguments in the circle of experts and professional organizations, is precisely the relationship between public benefit and participation or the performance of public tasks.

A study conducted in 2005, provided an in-depth analysis of this area, presented legal obstacles in detail. By repeating the study after almost 15 years, I review the problems that were identified. In addition to the measurement methods that were born at that time, I also compare it with the analysis of other researchers, and make a critical assessment in order to shed light on the objective possibilities of measurement.

4 Main hypothesis

For the state as an organization system, providing the framework for the provision of public tasks and services:

H1. Over the past two hundred years, there have been intensified economic rearrangements, accompanied by a number of major changes in power branches. I suppose, these processes are mainly closed setting up a new ecosystem, but the cognitive dissonance between the perceived and the assumed reality (image based on our knowledge and studies) requires a reformulation of the theoretical foundations. Therefore, the assumption that **the sources of state theory and economic ideology do not provide a sufficient basis for defining the role and task system of the state, and it seems reinterpretation is necessary.**

The state still has an undeniable and indispensable role in regulation and public services, but the ever-increasing effects of the climate around, are a threat to its existence. On the conclusions coming from the recent global economic crisis, it can be suspected that the **state also has an economic correction function.** In order to protect citizens, it is **necessary to strengthen the state**, because market mechanisms increase the exposure and vulnerability of individuals.

H2. The question arises, whether the traditional indicator systems supporting the interpretation of economic processes are suitable for forecasting crises and thus making it possible to plan what budgetary effects the correctional set-up will have. In my opinion, hard indicators (GDP, inflation, unemployment, etc.) and softer **indicators** (competitiveness, happiness, etc.) **do not make hectic movements generated by the economy foreseeable.**

Concerning the subject of public task as manifestation of state function:

H3. The system of public tasks, the number of tasks performed and the services expected by citizens, change in the long run. But this process causes very slow modifications. In addition, the portfolio is influenced by the current domestic political situation and political communication. Therefore, **in the short term, the ability of the state to intervene and to perform its tasks can only be enhanced by the development of public management.**

Policy-making, budget design and financing of public tasks in Hungary have remained unchanged for decades. In contrast, accounting and reporting terms

have undergone a number of significant changes, basically exerted by external factors. Although many experiments have demonstrated the professional aspirations of the bureaucracy, political decision-making has not produced the central will required for the reform in planning and execution of general government budget. The regulation has remained unchanged but the need is perceivable for **the development of a coherent, public-service-oriented (otherwise program-based or performance-based) fiscal framework, without which efficient public finance management is unimaginable.**

H4.As for the expansion of the economy, we can accept the thesis that innovation is an indispensable element of development also for of management of public services. Despite the fact that the state basically implements tradition-based operations – thus it is fundamentally resistant to bureaucratic internal initiatives on essential organizational issues – **it is possible to identify innovative tools in public finance management**, having low risk, respecting the integrity of public policy goals, while the adaptability of the public servants can definitely lead to efficiency gains.

The non-profit-making partners of the state in respect of civil organizations:

H5.One of the symbolic areas of the renewing legislation in Hungary in 1989 was the law on freedom of association. Over the past decades, significant innovations have emerged at several points (PIT 1%, Public Benefit, National Civil Fund, Volunteering), but the fundamentals have been left unchanged, while professional discussions have not reached consensus in Hungary. Meanwhile, global transformations have brought the sector to new challenges. The framework established by the **regulatory reform implemented in 2011 was likely to be equilibrium of the field and has solved all major material and procedural issues.**

H6.Opportunities for civil society organizations to participate in the provision of public services have become more widespread with the re-regulation of public and non-profit areas (as well as related Civil Code). At the same time, practitioners' **experience shows that for some reason, the practice of contracting public tasks and services could not become widespread in Hungary.**

Reporting rules for NGOs have also changed, and the statistical reporting system has evolved. In addition, public tasks are in the focus of the redefinition of public benefit activities. Thus, it can be **assumed that based on the available data, the performance and participation of civil organizations in state tasks can be accurately measured and bare comparable statistical information with the spending units.**

Public tasks undertaken by non-governmental organizations (on the basis of a written contract concluded with a non-budgetary body) theoretically extend the budget as the additional source of the execution of budget. However, there may be **specific civil society activities that ultimately have a budgetary impact on public spending.**

5 Conclusions and findings

The primary purpose of my dissertation was to identify the key factors affecting the performance of public tasks and services and the measurement of public benefit activities through the examination of the operation of the state. I have also attempted to find practical approaches to specific problem areas within the field of public administration science. Given that our field itself enriches the range of interdisciplinary sciences, my analysis has been shaded by the inclusion of further disciplines to provide stronger proof of test results. Within this scope, the following scientific results were identified:

- I. The study of history of theories related to public tasks confirmed that it is not possible to derive a coherent system – capable of responding to the causes and ways of the creation, provision and termination of public tasks (in other words, their life cycle) and their internal interactions – from the processed sources. At the same time, on the basis of the macroeconomic data of the last two hundred years, the general government expenditures, which naturally finance public tasks, have increased significantly even if we ignore the effects of the increase caused by world wars. In this way, a massive increase in the size of the economic role of the state and that of public service portfolios can be identified.

Based on my analysis, despite the cyclical nature of world economic crisis, advanced analytical methods, long-term macroeconomic indicators, and international rankings have not been able to predict the latest crisis. In contrast to the functioning of market mechanisms, only not-for-profit service providers of public tasks (including the state itself) are expected to be able to protect the increasingly marginalized majority of people living from wages and earnings. It has been proven that the regulatory functions and economic activity of the state (which was a flagship for the recovery from the crisis) have been the most important. Parallel to this the trends that have been reviewed in detail have shown that the information monopoly of state has finally disappeared.

On the basis of the above, it has been **confirmed that while the state is indispensable for the operation of societies and the world economy, new challenges and dangers make it necessary to place the state theory framework on new foundations and therefore to strengthen the state itself.**

- II. The examination of the definitive and legal environment of public tasks and public benefit activities resulted to the recognition that although many sources mention the existence of these tasks, the exact definition is missing. There is a provision in many laws and resolutions on how these public tasks should be recorded, performed and handled economically. The shortcomings lead to the conclusion that the constitutional and public financial framework laws leave it open for the legislator to create, transform or terminate public tasks at any time with sectoral regulations. Although the need for ex ante economic impact assessments is formulated at the regulatory level, the legislative practice presented – e.g. preparation, time taken for adoption – suggests that these calculations remain at the level of formality and are not actually a real subject to decision-making in most cases.

Observing the structure of the budget law, the mixed approach of administrative and program-based elements, the basic methods of budget planning procedures, it was proved that public tasks are not the focus of

management, which makes providing transparency and comparison extremely difficult. In addition, these factors do not have a direct impact on election results, but make the management of public tasks more complex than necessary. During **the analysis of the legislation, it was found that the accounting system for both the budget spending units and the NGOs moved towards the accrual based approach and task orientation. Examined international practices and previous Hungarian experiments have unanimously confirmed that program-based budgeting is an indispensable condition for increasing efficiency.**

- III. Besides internal resources of public administration, NGOs also help to carry out public tasks through the provision of their public benefit activities. The changing of the regime opened up again the freedom of association, allowed more and more space for non-profit activities resulting in a relatively stable level of macro-level indicators by these days.

A number of minor changes and amendments were made in the past decades but the basics of the system remained the same.

The reform was carried out in 2011. Partly due to stabilization of volumes, partly responding to new challenges, and also partly to the need for a revision of legislation that became increasingly confusing. The theoretical debates that have not been completed in the circles of professional experts have remained open, and the law could not answer them. After all, the detailed analysis provided, a number of **legal gaps and shortcomings were identified in the field of civil service organizations** (e.g. public benefit, religious organizations, non-profit business associations, legality controls, reporting rules) **and public tasks** (sector neutrality, task-oriented budget system), which cannot be postponed, and the solution could be primarily a **codex for public tasks**.

- IV. Works of several excellent theoretical and practical experts have attempted to solve the measurement of civil society participation in public service provision (without the need for completeness among others (Kákai 2019))

(Sebestény 2011) (Báger et al. 2007) (Bíró 2005)). They all faced the fact that only secondary conclusions can be derived from the available data, because the statistical data supply does not contain rich information for this assessment. Although the content and publicity of civil organizations' yearly reporting makes it possible to analyse the whole population in theory, for administrative reasons (format of data storage) the analysis cannot be carried out. With this, **it has been proven that the legislator, along with its intent for prudent regulation, no precise method can extract a comprehensive analysis of the involvement of civil society organizations in the performance of public tasks.**

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