Editor: Krisztián Kádár

GOOD GOVERNANCE

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PREFACE

This book is intended as an introduction to good governance theme, which in recent times has seen an increase in relevance and even urgency that parallels the progression with European integration and the internationalization of public administration. In view of international reform discourses and modernization concepts, new country rankings and performance indicators have also been developing, displaying specific common features of their administrative and governance system and thereby providing new conceptual and empirical challenges for administrative science.

The book consists of chapters written by different authors, covering various (albeit not exhaustive) aspects and dimensions of good governance. The first chapter offers an overview on the governance measurement systems and attempts to design a new measurement model of the quality of governance (Good Governance Index) that aims to be comprehensive and transparent. This model illustrates relevant substantial and methodological problems to which researchers surely face in dealing with how to measure up public performance, goodness and quality of a government. The second and third chapters lay down the theoretical frameworks and interpretations of the ongoing institutional policies on the international, national and subnational levels. The fourth chapter deals with the specific policy and governance domain of macroeconomic fiscal policies, which inevitably involves each aforementioned layer in the European Economic Governance. The last chapter provides an overview of the key concepts of how to describe government actions and interpret the performance of public services, and also sets up a framework for analysis. The information base for studying government action is provided by the methodology of public policy analysis.

This volume is meant to reach a wide range of readers and users. First it is expected to serve as a textbook at universities for lecturers and students. Sections of self-testing questions, recommended literature for further reading and glossaries serve as learning resources for students. Second, the book is intended to address a readership that includes politicians, administrative practitioners as well as readers generally interested in issues of governance, public administration and democratic institutions.

Editor

CHAPTER ONE

The Quality of Governance and its Assessment*

The aim of the research is to overview and analyzing the basic value dilemmas related to the assessment of good governance. The study shares the idea of neo-Weberian paradigm narrowing the concept of the governance of the new public management theories. The conceptual framework is based on the performance and accountability of a given government that does not include processes being out of the constitutional public responsibility of the government. The lessons learned from financial crisis, weakening trends in confidence in governments and the widespread political corruption urge to design independent and evidence-based measurement systems on the inputs, outputs and outcomes of governmental actions. The indicator-systems and rankings run by international organizations, NGOs and think-tanks are generally based on selected public values and policy-concepts, however, they do not make real assessment on policies and processes of governments. The quantitative factors and indicators of them aim to avoid any correlative analysis with real outputs and outcomes that would lead to a qualitative value-based approach of the governance and its efficiency. Recent measurement and indicator-systems designed specifically to national social, economic processes and governmental policies tend to be appropriate for a qualitative evaluation of government's abilities. The paper attempts to design a new measurement model of the quality of governance (Good Governance Index) that aims to be comprehensive, objective (transparent) and based on complex approach of evaluation. The model can illustrate relevant substantial and methodological problems to which researchers surely face in dealing with how to measure up public performance, goodness and quality of a government. The research concept is extended to the following aspects of the public governance: security and trust in government, social well-being, business competitiveness, fiscal stability, sustainability, democracy, effective judicial protection and rule of law, efficient public administration.

Introduction: Philosophy of good governance

Ambrogio Lorenzeti's frescoes painted in 1338 on the four walls of the council chamber of Siena Town Hall in Italy depict the allegoric images of "good" and "bad" governance. "Good governance" ("bonum commune") is illustrated by peaceful labour, while "bad governance" is characterised by hideous conditions (falsehood, corruption and war). A strong and powerful man with white hair and a beard is depicted in the centre of

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the pictures showing "good governance". He is seated on a throne, wears a cloak and holds a sceptre and a shield. He is Communitas, i.e. the community – and according to some interpretations he is Bonum Commune, the common good itself. The three "theological" virtues (faith, hope and love) are depicted above him along with the female figures of virtues associated with good governance: Prudentia, the figure of practical wisdom; Fortitudo, the strength of the soul; Temperantia, temperateness; and Justita, justice; while on the other side there is Magnanimitas, generosity and Pax, peace. A tyrant can be recognised in the centre of the picture entitled "The allegory of bad governance", surrounded by female figures embodying various felonies. The three theological virtues are counteracted here by Avarita, Vanagloria and Superbia (greed, vanity and pride). The picture is surmounted by the spectre of war.[1]

There are various methods and approaches used worldwide to interpret and measure good governance.[2] Generally however, the variety of the assessment of practices and theoretical diversity *contribute to the development of the culture of governance*. This is even reinforced by international dialogue that does not aspire to synthesise and does not force the standardisation of any conceptual framework. The notions of "goodness" and "efficiency" have become the open boxes of multidisciplinary theories amidst the increasingly vigorous discussion of values in the context of governance. As the framework of this, *Thomas Jefferson*'s evergreen principle states that *the care of human life and happiness is the first and only legitimate object of good government*. The happiness of people as the focal point of measurement has become a scientific discipline in recent years. OECD Better Life Index, various measurement systems based on social sciences (Happy Planet Index, ranking of the Happiest Countries) and the GH (gross national happiness) project show that the ultimate objective, i.e. the happiness of the people is the only convincing evidence that governance is on the right track.

The financial crisis that started in 2007 has undoubtedly amplified the conceptual debates of the quality of governance. *The effects of governance on economic competitiveness and social well-being are the focus* of this discussion.[3] The *pro-state approach* of economic and social problems is growing stronger. Expectations from the state and public governance have increased, along with the decline of the neoliberal way of thinking. Maintaining the stability of public finances and promoting technological and organizational innovations are important tasks of government. State is required to provide legal stability, quality regulation and a reliable business environment. All this is based on *the trust of society in government, which is synonymous with the notion of non-corrupt governance*. Government needs more and more substantial organisational and administrative capabilities as its responsibilities grow, while it must also take over the administrative load from citizens and businesses. Governments operate within the constraints of performance criteria, which have two focal points today in Europe: economic growth and boosting employment.

Similarities as well as differences can be found in the approaches of governance, good governance and new public management to public policy.[4] It is a substantial change in the theory of governance that the *emphasis on the responsibilities and tasks of governments as public authorities (government)* has played down the idea that approaches governance as a collective and decentralized procedure (governance). Along with the decline of "governance" theories, liberal movements limiting the role of the government, such as the practice of "New Public Management" (NPM) that spread from the mid-1980s, have failed as well. The main aspects of NPM were the liberalization of regulatory systems, privatisation of certain community functions and outsourcing. The professional business management methods characteristic of the private sphere were the patterns adopted and applied by New Public Management, with economy, effectiveness and efficiency as its main values. Public management views favouring market solutions have been swept away by international and national crisis strategies highlighting the responsibility and accountability of governments as well as the quality of the "governance of government". The neoliberal management approach of former governments has also become an explanation for the corruption of the public sector all over Europe. The body of literature describing the correlation between bad governance and New Public Management is growing ever larger.[5]

The main aspect of views contrasting the goodness of government to that of governance is that governments and their responsibilities have been weakened by public management approaches that softened governance. Therefore, government has taken the place of governance, while responsible and accountable decisions of the government have taken the place of governance procedures and analyses of consensus. *Recently the pro-state approach has replaced "soft-government" philosophies.*

The primary feature of the quality of governance is confidence in the government and its integrity against corruption. Bad governance is equal to corruption, i.e. the dominance of private interest over the public interest. Negative tendencies show that governments can barely keep up with the growing burden of tasks and expectations. This is reflected by governmental performance, at least in terms of general opinion.[6] The perception index has been showing a negative tendency and decreasing average over recent years. The GaaG confidence index (Government at a Glance 2013) published by the OECD has decreased in two-thirds of examined OECD countries between 2007 and 2012. The OECD average confidence index has also fallen by 5%; from 45% to 40%.[7] Signs indicating a general decrease in the two basic categories of *public perception* concerning the quality of governance draw the attention of scientists and governments to the importance of *objective measurement of government performance.* Objective measurement is based on technical indicators and numeric indices – as well as the measurement of social perception. This does not exclude subjective, perceptual indicators. However, doubts arise about objective measuring on ontological grounds: "is there any objective standard" or "is there a reality independent of the observer (society)" in the case of social phenomena?

1. Value dilemmas of good governance

The conceptual frameworks of good governance are defined on the basis of the "pro-government" or "pro-state" paradigm shift. *The quality of governance must be interpreted* *in the context of the constitutional position and responsibility of the given government*.[8] This means that the conceptual scope of governance is defined by the constitutional obligations and power instruments of the government. This requires values to be defined as much as the Constitution (Basic Laws) establishes the common good and public values. However, quality, goodness and efficiency of governance remain open to the question of values. National and regional strategies may place these in broader or narrower terms: e.g. smart, effective, sustainable and inclusive governance. For instance, the system of *governmental tasks of the Classification of the Functions of Government (COFOG)* may be of use.[9] The COFOG framework – connected to the concept of public governance (GaaG) by OECD – includes the responsibility and performance of the government and of its subsystems with executive power.

Functions of the government sector can be classified as follows[10]: performing tasks of public administration (public authority functions, public services), legal and institutional framework, and maintaining democracy. *Minimal functions*: defence, legality, order, protection of property, management of the macro-economy, public health care, social cohesion, and international cooperation. *Medial functions*: realizing externalities in education and environmental protection, quality of education, regulation of competition and monopolies, pension insurance, support of families, social care of the homeless. *Activating function*: enhancing competitiveness, redistribution of incomes, and state control on finances.

The definition of governance according to the World Bank: "the traditions and institutions by which authority in a country is exercised. This includes (a) the process by which governments are selected, monitored and replaced; (b) the capacity of the government to effectively formulate and implement sound policies; and (c) the respect of citizens and the state for the institutions that govern economic and social interactions among them."[11] Canada's Institute of Governance (2002) offers another definition, asserting that governance is the common name of processes whereby decisions are made and implemented. Governance according to United Nations Development Program (UNDP) is the way a society organizes itself. The EU demonstrates the development of the concept of both supranational and international (common) governance.[12]

The basic concept of the quality of governance is the realisation of the common good. The aim of Hungarian government reform has been to create the "Good State" since 2010.[13] The notion of the common good gives a framework to the value content of governance. Value declarations associated with the public good have two stages: *value abstractions* and *value contents*. Value abstractions offer relatively clear and evident categories. The contents, manifestation and measurability of value abstractions however brings forth disputes between different schools, e.g. of economics, public management and public policy.

The 2007(7) Recommendation of the Committee of Ministers of the Council of Europe contains value abstractions deriving from the conceptual approach of governance and public administration. The Recommendation provides for the collection of principles of good governance and common good: lawfulness, equality, impartiality, proportionality, legal certainty, procedure within a reasonable time limit, participation, respect for privacy, and transparency.

The value abstractions of the evaluation of governance principles and procedures in the system of Bovaird are the following: social participation, transparency, accountability, equal opportunities, ethics, fairness (fair procedures), competitiveness, efficiency, sustainability and the rule of law.

Social effects and target values are often confused with government methods and instruments in value catalogues. Value conflicts become more intensive when evaluation focuses on *value content, i.e. the instruments of governance (inputs) and its direct results (outputs)*. Evaluation becomes more clear when the targeted and *achieved social effects and through this, the value abstractions* are examined. In other words, serious disputes can arise around the question of methods and instruments of good governance, especially between those with economic and public policy perspectives. However, merely the realisation of, for example, public well-being or democratic values as *beneficial to the public good can legitimize various governmental pragmatics, qualifying them as "good"*. [14]

International measurement systems – to be discussed in Chapter 2 – strive to avoid value conflicts and direct evaluation with a *data-centred approach*. The indicators of the OECD governmental panorama (GOG) imply some abstract values (e.g. transparency), but basically do not present direct assessments. Instead, they show data and no direct evaluation. International ranking lists should therefore be seen as numerical sequences as they do not aim at any evaluation.

Let us take some examples for the illustration of value conflicts. Understanding them helps reveal the *measurement and evaluation problems of governance inputs (instruments)*.

The regulation, financing and organization of public services, state redistribution and fair taxation can be basically regarded as instruments and results but not as impacts. Social (e.g. standard of living) and economic effects (e.g. stable taxation) can be different – positive as well as negative – even amidst constant governmental methods and practice. There is a consensus on the socio-economic effects regarded as common good on the level of abstractions; however *there is no standard model of common good on the level of governmental instruments*. For instance, the government is supposed to ensure competition while at the same time ensuring it meets the criteria of fairness and justice. Taxation shall be levelled in a way that neither labour nor economy should suffer disproportional restrictions. *What is the meaning of public good on the market for services, for example?* Which services does "good governance" leave to the market (market services) and which does it include into the sphere of state responsibility (postal services, general practices, railways, higher education, basic research)? How far should government responsibility extend in the field of public services? How thorough should legal regulation or authority licensing be in the market sphere? To which types of services should the state provide financing, in what form and to what extent? This can go even further if the state also takes on the organization of services. *The measure of the common good cannot be defined – not even in the field of public services – in an abstract way, with the help of one formula to fit all situations*. The state has the basic constitutional responsibility to ensure certain basic rights and to meet the conditions for quality public services accordingly. *The complex formula measuring the common good combines quality, efficiency, market capability and price levels. There is no ideal "zone of state allocation"*, i.e.

the sphere of services for which the state takes over the distribution of resources from the market. There are state allocations correcting market processes and state allocations substituting market processes. How extended is the "good" state allocations zone? [15] In our view there is no universal model.

The economic crisis has triggered *more extended state participation in public services* since 2008. The responsibility of the state to provide public services has increased as well as the demand for quality and wider accessibility of drinking water, electricity, social insurance (pensions), health insurance, health care, primary and secondary education, national defence, public security and jurisdiction, etc. There are fields in which the market can generally provide public services, but the state – with its secondary responsibility beyond legal regulation – must contribute at least as a co-financer because of its constitutional involvement (e.g. postal services, general practices, railways, higher education, basic research). In reality, the goodness of governance is best reflected in proportions and methods: e.g. what, how and how much is financed by the state in higher education; whether access to and sharing of costs between state and "users" are just.

Public finances serving the common good are the inconstant mixture of the justice of state redistribution, proportional financing by beneficiaries (profit pay), and mechanisms of fairness (tax discounts, subsidies). Reduction of public expenditure is one of the attributes of good governance. However, non-profit services taken into state responsibility can also be regarded as instruments of the public good as they reduce the expenses of the people while at the same time increasing public expenditure.[16] The state is an ever greater distributor of resources; as an economic actor, it reduces the role of the market in more and more fields of public services through its institutions. This is an example of the *value conflict between the active, crisis managing, responsible state aiming to correct market distortions and achieve the ideal of reduced state redistribution cutting back public expenditure.* The OECD provides statistics on governmental expenditure as a proportion of GDP, per capita and also by industry, but does not draw any evaluative conclusions from the numbers. OECD member states have increased public expenditure in proportion to GDP by 4% on average between 2001 and 2011, which provides a picture of an active, intervening state in most of these countries.

Another dilemma of the common good is the *justice of burden sharing*: progressive income tax (higher income results in a higher tax rate) vs. linear taxation with a single tax rate. Does it serve the common good if company taxes are increased with the purpose of decreasing the tax burdens of the population? In our view, this is a dispute between instruments in which there is no absolute general good. Common good is to be sought through measuring goals and effects.[17]

First and last, *governance realizing the general good has to be pragmatically measured by goals regarded as values and effects*. There is no absolute quality (goodness) in terms of instruments, governmental means and results. It would be idealistic, however, to avoid the measurement and assessment of governmental instruments and results. "Best practices" and "good experience" regarding their effects give way to the positive evaluation of a given governmental method with respect to the specific social and economic context. To put it metaphorically, the evaluation of the pianist, the piano, the training and other circumstances in themselves is of no relevance. Only the effect, i.e. the quality of the music and the concert should be measured: what was the reaction of the audience? In our interpretation: the method of police administration for instance is not relevant; public security as an outcome is the key success factor. Measuring effects without regard for the instruments used is ideal and typical as a method even for assessing the goodness of governance. History teaches us to learn from these effects. The task is to develop comprehensive assessment systems covering the whole activity of governance. International data systems (World Economic Forum, OECD, World Bank) avoid a "value for all" model as it is almost worthless on the international scale. On the national level, however, assessment is necessary to improve governance.

2. Governance evaluation models

Most international organisations measure governance by outcome indicators (social, economic and environmental). However, no direct evaluation has been provided, the aim has rather been to present comparative data, averages, trends and rankings to monitor (follow-up) and build a strategic database. The applied indicators are subsequently intended to be analysed by think tanks and policy-makers. As a basic goal, international measurements make for a comparative database, while their outcome is to foster improvements in the quality of governance, as well as related discussions on public values and efficiency.

2.1 Indicator systems of the European Commission (EU)

The Eurostat statistical database includes a comprehensive indicator system covering all the important fields of economic and social life.[18] Within it, further indicator systems are included to monitor sector-specific strategies. The Europe 2020 strategy or Sustainable Development[19] have their own separate indicator systems, and the same applies to the indicators of the macroeconomic imbalance (Macroeconomic Imbalance Procedure Scoreboard) and to the euro. Indicators and definition systems were introduced in 2013 to measure the effectiveness of national justice[20] and corruption[21] within the EU.

The *Europe 2020 strategy* measures quantified policy aims:

1. Employment: employment rate among men and women
2. Research and development: expenditure on R&D in proportion to GDP
3. Climate change and energy: greenhouse gas emissions, rate of renewable energy, energy-efficiency
4. Education: rate of early school leavers, rate of high school graduates
5. Poverty and social exclusion: rate of people living in poverty and social exclusion

The *EU sustainable development indicator system* quantifies institutional, structural, and policy impacts:

1. Social and economic development
2. Sustainable consumption and production
3. Social inclusion
4. Demographic changes
5. Public health
6. Climate change and energy
7. Sustainable transport
8. Natural resources
9. Global partnership
10. Good governance

In contrast to other fields, no emphasized indicator (headline indicator) was highlighted in connection with good governance, but only target indicators: such as public policy coherence and effectiveness (citizens' trust in EU institutions, legal offences, transposition of EU law); openness and participation (voter turnout, accessibility and usage of e-government); rates of environmental taxes and work-based taxes are compared for economic purposes.

The *Innobarometer* is also worth mentioning: previous issues were Innovation in the Public Sector (2012) and the EPSIS (European Public Sector Innovation Scoreboard) pilot in 2013.

2.2 Indicator systems of the UN

The UN fundamentally supports good governance with advices, forum, and communication campaigns within the framework of the *'UN Development Program'*. The United Nations Democracy Funds (UNDEF) has been dedicated to conveying democratic values and democratic governance since 2005. The *UN Public Administration Network (UNPAN)* is a forum for exchanging experiences and transmitting values related to good public administration. The criteria for good governance based UN values are as follows: governance based on participation; consensus-orientation; high degree of transparency; accountability; responsiveness; efficiency and effectiveness (in line with the principles of sustainable development); equitability and inclusiveness; the rule of law.

The target and indicator system of the *UN Millenium Development Goals* is associated with the poverty mitigation strategy. The sector-specific organisations of the UN, such as UNICEF, (Multiple Indicators Cluster Survey) maintain different databases. The UN sustainable development indicators differentiate three conceptual dimensions of human wellbeing: the current generation's wellbeing in a particular country (present), the wellbeing of future generations (future) and the wellbeing of people living in other countries (cross-border effects). The three main fields of sustainable development (environment, society and economy) are covered by this framework with the distinction of twenty further subject groups. These are as follows: a) subjective wellbeing, b) consumption and income, c) nutrition, d) health, e) housing, f) education, g) leisure, h) physical security, i) trust, j) institutional systems, k) energy resources, l) non-energy resources, m) land and ecosystems, n) water, o) air quality, p) climate, q) labour force, r) physical capital, s) knowledge capital, and t) financial capital.[22]

The UN *human development indicator* applies three indicator fields and four indices:

1. Health: life expectancy upon birth
2. Education: the average age of participants in education; the expected number of years spent in education
3. Living conditions: gross national income (GNI) per capita.

2.3 Indicator systems of the OECD

The Organisation for Economic Co-operation and Development (OECD) also operates a statistical database that includes more distinct indicator systems.

Governance (public governance) is categorized according to the topics below:

1. budget and public expenditure
2. public sector innovation and e-government
3. combatting corruption in the public sector
4. public sector staff and its management
5. public finances and monetary finance
6. regional management
7. legislation
8. risk management

Every second year, the OECD issues a publication entitled Government at a Glance that is based on the analysis of the quantitative and qualitative indicators of governance. Composite indicators are also published alongside partial indicators. These indicators are classified into four main groups: 1) contextual 2) input 3) process and 4) output indicators. Input indicators are, for instance, government incomes, as well as the structure of incomes, expenditures and the structure of expenditures, employment indices, etc. Process indicators relate among others areas to public procurement, transparency and legislation. Output indicators are, for example: higher degrees of equity, equal access to education and health.

A Government at a Glance indicator system collects measurements on the topics below:
1. Trust in government, policy effectiveness and governance agenda
2. Strategic governance
3. Public finances and economics
4. Budgeting practices and procedures
5. Public sector employment and pay
6. Women in government
7. Public procurement
8. Open and inclusive government
9. Accessibility and quality of public services

The *OECD Better Life Index* places optional weightings on eleven factors.[23] The index covers such fields as housing, income, workplaces, community, education, environment, social participation, health, satisfaction, security, and work-life balance. One of those fields relates to 'civic engagement and governance quality'. This field is covered by factors such as: 1. voter turnout; 2. political engagement; 3. consultation on rule-making; 4. trust in governmental institutions.[24]

The *OECD Society at a Glance* indicator system accumulates statistics in which social cohesion and subjective well-being, as well as the state of society, are measured, together with the index for social reaction.[25] Furthermore, the PISA indicators (OECD Programme for International Student Assessment) provide data on student competencies in the field of education.[26]

2.4 World Bank

Research on the quality and efficiency of governance resulted in the *Worldwide Governance Indicators* (WGI) database in the World Bank.[27] More than 200 countries, applying six main composite indicators, were covered.[28]

The dimensions of WGI measurement were the following:
1. Voice and accountability
2. Political stability and absence of violence
3. Government effectiveness
4. Regulatory quality
5. Rule of law
6. Control of corruption

2.5 Rankings measuring the competitive, financial and economic aspects of governance, with special regard to the WB, the IMD and the WEF rankings.

2.5.1 The World Bank and the IFC (International Finance Corporation) have been creating the 'Doing Business' index since 2002. The coverage extended to 185 countries in 2013. The indicator system has been designed to encourage countries to develop effective, SME-friendly regulatory environments. Across the two main dimensions, 1) the complexity and cost of legislation and 2) the strength of legal institutions, eleven fields have been examined and monitored in value terms. The indicators are as follows:

1) Complexity and cost of legislation
    1. Starting a business
    2. Dealing with construction permits
    3. Getting electricity
    4. Registering property
    5. Paying taxes
    6. Trading across borders (export)

2) Strength of legal institutions
    7. Availability of credit
    8. Protecting investors
    9. Enforcing contracts
    10. Resolving insolvency
    11. Employing workers (although this is not covered in the index value calculation, it still counts as a subject of the discussion)

2.5.2 The *IMD (Institute for Management Development)* is a Swiss-based competitiveness research and training centre. It annually publishes the *World Competitiveness Yearbook*, according to which countries are ranked by the extent to which they are able to develop a sustainable business, economic and political environment for companies and enhance the competitiveness of economic actors.[29] Ranking is determined by four factors: *economic performance, government efficiency, business efficiency and infrastructure.* The opinion data is taken into consideration based on 38 statistical data and 33 questionnaire surveys linked to the further five sub-factors (public finance, fiscal policy, institutions, economic laws and social trends) within governmental efficiency.

2.5.3 The competitiveness index of the *World Economic Forum (WEF)* examines 133 sub-criteria *(Global Competitiveness Index)*, as well as analysing the economy, the institutional system and the politics of 142 countries. It also investigates the extent to which the long-term conditions for economic growth, such as good institution system, good infrastructure, good education (qualified workforce) or advanced technology, are in place.

2.5.4 *An interesting example of the international studies evaluating the rule of law, The World Justice Project: The Rule of Law Index*[30]

2.5.5 *Transparency International* (TI) – based on the Corruption Perceptions Index – regularly publishes the scores and rankings of countries based on the measurement of trust as a decisive element in governance evaluations and of anti-corruption efficiency. The TI itself performs no data collection, instead using 13 different international data resources, such as the World Bank and WJP, to calculate the index.[31] TI nevertheless conducts a survey known as the Global Corruption Barometer that examines the public perception of corruption in the general population.

2.5.6 *Indicator systems addressed by national governments*
These systems have been developed in recent years partially inspired by international rankings and also as a result of improvements in national statistical systems.

The indicator system of the Key Indicators for Assessing the Nation's Progress of the U.S. Government Accountability Office (GAO) is being constructed in the *USA*; and is more of a collection of reports than a statistical database. The Measures of Australia's Progress (MAP) is handled by the *Australian* Bureau of Statistics (ABS) with the objective of providing a facts-based response to the question: 'Is life in Australia getting better?' The indicator system covers three main fields: society, economy, and environment. The time span of evaluation is ten years for each indicator.

The Canada's Performance report was created by the Treasury Board of Canada Secretariat (TBCS) and essentially aims to monitor the practice of governance and to place governance under public control. In the *Netherlands*, the System of Economic and Social Accounting Matrices and Extensions (SESAME) is the indicator system developed by Statistics Netherlands. SESAME is an integrated economic and social accounting system that interprets the definition of welfare through a single, multidimensional approach. Within this system, the SAM (Social Accounting Matrix) is the integrated accounting system for socio-demographic trends and employment, while the NAMEA (National Accounting Matrix including Environmental Accounts) is does the same for knowledge and environment. In *Switzerland,* Measuring Sustainable Development (MONET), produced by the Federal Statistical Office (FSO), monitors Swiss economic, social, and environmental trends in terms of sustainable growth. The indicator system is based on a total of 17 key indicators.

2.5.7 *Indicator systems in Hungary*
The Central Statistical Office (CSO, KSH in Hungarian) operates the Indicator System for Social Progress created at the initiative of the OECD in 2007. The indicators concentrate on three fields: economy, society and environment. This includes 18 subfields in total: four sub-fields for the economy, 11 for society, and three for the environment. The CSO sustainable development indicator system follows the Eurostat system and applies 106 indices. The State Audit Office (Állami Számvevőszék), having applied the Delphi-method, carried out a one-time measurement on the topic of public

sector competitiveness and the economy in 2010.[32] The Nézőpont Institute (a policy research NGO) performed a comparative examination on trust in and stability of governance in Hungary, Slovakia, the Czech Republic and Poland.

The methodological diversity of the international and national projects goes beyond the scope of this study. The existing systems and their development, as well as the new experiments reveal much about changes to and trends in governmental culture. They also form a basis to deliver new models and to enrich the evaluations and the community of evaluators. Hereinafter, we will provide an insight into an experiment on the national level. The evaluation and measurement of governmental efficiency pursued by the *Good State Index in Hungary* (Public Administration Development Program of the Government 2011-2012) outlines the basic questions associated with the measurement of the quality of governance. It also provides valuable insights, as a means of education and research, into methodological aspects, value conflicts and related scientific and pragmatic points of view.

3. Good Governance Index (GGI) – governance performance assessment and measurement modelling

3.1 The concept behind the model

The aim of the research initiated by the National University of Public Service (NUPS) in 2013 is to create and operate an indicator framework evaluating the efficiency of national government. *The NUPS GGI aims to establish a performance measurement method examining the change and development of government capacities and abilities with a view to the values of Good Governance*. The baseline approach to benchmarking means that a change in an indicator is compared to a previous base year. Accordingly, *changes in governance abilities can be either positive or negative*. This may indicate positive government performance despite relatively weak, but improved marks compared to the earlier (base) ones. GGI does not follow the normative approach of international ranking (showing only the actual situation), which is only supplemented by a very moderate competitive and comparative approach (ranking).

Conceptual framework for measuring governance efficiency:

- measuring the realization of common good with impact indicators for impact fields (outcome)
- changes in government abilities primarily affecting impact fields are shown by result indicators (output)
- such government activities as actions and processes, primarily applying to impact fields, receive indicators (input).

Value factors (positive or negative) assigned to indicators display the assessment of directional change. The aggregate value factor of each indicator shows the dynamics characterized by the three levels (input, output, and outcome) of government efficiency.

Thus, the results of the measurements are compared to base results and changes are evaluated positive (improvement) or negative (weakening). So the GGI does not intend to establish a "mirror system" to benchmark other schemes. It neither intends to aggregate existing indicator systems to produce a different composition, nor does it create rankings. The purpose of GGI is the continuous operation of an autonomous assessment system by developing an own database that provides feedback on governance effectiveness, the change in quality of governance in each impact field. Conclusions can be drawn from the quantitative variables concerning the development of governance capacity. Capacities influence the change in governance abilities. Since the onset of the economic crisis, numerous relevant international studies (OECD GaaG) have concluded that *strengthening governance capacities have a positive effect on economic and social development and crisis management. Value-based consequences can only be deducted from quantitative variables if the quantity of the measured value (low, small) also constitutes value on the level of impacts or results (governance abilities)* (e.g. low budget deficit = balanced budget; high rate of higher education graduates = positive effects on knowledge capital, sustainability and employment).

The combination of governance processes, results and impacts can only be transferred to the assessment framework through a certain *methodological complexity*. This complexity shall also take into account some level of *comprehensiveness and common understanding*. GGI measures the change in governance ability with three types of indicators:

- *Opinion*: GGI uses existing or new opinion measurement results to measure the perception and sentiment of the personal or organizational target group (residents, business target group, and expert opinion).
- *Action*: the quality of governance has many aspects that cannot be quantified. The existence of schemes, programs, regulations and measures as such is often sufficient to strengthen governance ability. The OECD and other assessment systems also use actions as indicators, such as the existence of Senior Civil Service (public service personnel), regulated budget constraints (government expenditure), regulatory impact assessment (quality of regulation) and whistleblower protection policy (integrity of public sector). Governance ability is targeted by the impact value. The objective of the action indicates the impact value, while its result reflects the intensity of the governance ability targeted.
- *Statistical data*: quantitative indicators that are regularly part of statistical surveys and international governance and public administration measurement standards.

The fundamental issue on governance assessment is by whom and from whose point of view it is performed. The assessment shall be objective, i.e. *evidence based*, transparent and logical, and shall take into account scientific methods and research standards. The assessment should be politically *neutral,* meaning that it cannot be associated with any political party and that policy evaluation should be autonomous and clear. In our view, there is no any objective reality that would disregard the personality of the observer. The assessment can be seen as to be objective if this is logical, justified and clear. It must be comprehensive and balanced. Citizens, the business community, media, civil servants and NGOs have different preferences. The assessment *must evaluate holistically, covering the entire socio-economic horizon of the realization of common good.*

The *openness* of governance effectiveness evaluation also applies to the task of interpreting new socio-economic experiments. “Traditional” measurement methods often do not evaluate or distort a crisis brought about by exceptional, “unorthodox” governance measures.[33] This is partly because of the “*value-neutral” style of old-type assessments*. Specific concerns, over the importance and socio-economic and historical local context of a social problem, for example, are usually not relevant to international measurement systems, for instance. The 2007 financial crisis made the previous measurement systems uncertain and prompted *alternative assessment projects* on national and international levels. A remarkable example of this was the French President, Nicolas Sarkozy’s initiative in 2008, when he questioned the omnipotence of GDP and invited leading economists to provide recommendations for more relevant indicators of social development.[34] OECD’s Better Life index, monitoring life quality, was mostly developed based on the resulting proposal.

3.2 Scope of the assessment

The value orientation of good governance is expressed by the so-called impact fields (scope). The categorization and structure of impact fields are very diverse in the different assessment systems. Sub-fields of impact fields and their interpretation clarify appropriately at what intersection the governance is examined by the given assessment system. Comparing these may reflect diverse values and value preferences.

The impact fields do not differ much as several processes show social, economic or environmental impacts horizontally. Therefore, the prime grouping of impact (outcome) indicators does not deny parallel effects.

The *impact field system of the GGI project* is a type of model suitable for overviewing the fundamental questions of categorization.

1. Security and trust in government
2. Community wellbeing
3. Economic competitiveness and fiscal stability
4. Sustainability
5. Democracy
6. Efficient public administration
7. Rule of law (effective protection of fundamental rights)

The impact fields break down into sub-fields. There are related indicators that are primarily in their direction of action. According to the logical framework, these are governance inputs, results, indicators of processes or direct impact indicators.

3.3 Security and trust in government

A sense of security is a fundamental need for people and businesses. Ensuring security is one of the key priorities of government. Ensuring security and the (public's) sense of security are the most important factors determining trust in government. Thus, security and trust are the two impact fields that have the strongest interaction. The presence of trust in government is in itself a security factor with repercussions for the sense of security. Mistrust reduces people's sense of security and actually weakens security conditions.

This is a complex impact field which appears in diverse structures in international measurement systems. OECD measures the trust in government with a survey (Gallup survey, see above). The GGI project does not measure general public opinion and does not survey feelings towards the big machinery of government. Impact indicators are structured according to the following subfields.

Table No.1.

Impact field	Governance ability
Security and trust in government	1. External security 2. Public security – defence against terrorism 3. Disaster management 4. Trust in law-making 5. Trust in law enforcement 6. Political stability of government 7. Governance transparency 8. Secure standard of living

3.3.1 The field of ***external security*** represents protection against external attack as an faculty of governance. There are concepts describing the topic of external security extensively covering all parameters of state functions (economy, diplomacy, etc.) horizontally. We argue that external security, from the governance ability point of view, can be examined and measured basically in terms of the military power and security (military) alliances of a government. Obviously, a country's power in today's security challenges cannot be measured by military forces only. Risks against national sovereignty are more complex than this (economic blockades, cyber-attacks, etc.). The reason this narrow view can be justified and followed is that the abilities of governance are reviewed and studied comprehensively by other impact fields (e.g. the economy) and that the directions and moves of foreign policy and external economic relations cannot be parameterized within this framework.

The Global Fire Power (GFP) index ranks countries (106 countries are listed in 2014) according to their military power based on 43 indicators that summarize values into a power index ("PwrIndx") which represents the military power ranking of the states.[35] The comparative algorithms are designed to be able to compare larger, developed countries with smaller, developing ones. However, war potential, the military power index is measured with an extended dimension, and adjustment factors are applied to make the comparison realistic (i.e. a naval power compared to an inland state). Standards of political and military leadership of the given country or its nuclear capability are not taken into consideration by the GFP index. It takes into account all types of armed forces, human, financial and natural resources, logistical abilities and the country's geographical position.

Indicators optimized in international systems:

Table No.2.

Dimension	Indicator	Database
Multilateralism and crisis management	Development aids Humanitarian aids Peacekeeping forces	ECRF Scorecard GHA[36] Report Databases of international organizations IISS Military Balance Database of the Ministry of Defence
State of armed forces	Number of military personnel and their composition Military equipment of land forces (by type) Air forces and air defence equipment (by type) Dislocation of troops	IISS Military Balance SIPRI military expenditures GFP database Open database of the Ministry of Defence
Defense Budget	Annual defence budget (EUR/HUF) GDP% Composition of budget (salaries, maintenance, development) Purchasing power parity New military technology procurement and development	IISS Military Balance SIPRI military expenditures Small Arms Survey Global Peace Index Database of the Central Statistical Office Database of the Ministry of Defence

The performance of government in terms of foreign and security policy is also relevant in a wider sense. In the EU, experts (the ECFR) assess the contribution of member states to Europe's external security based on 30 indicators focusing on key EU policy areas, which results in the categorization of the member states as either "leaders", "supporters", or "slackers". The indicators always evaluate national support for and contribution to important questions, issues, initiatives, debates and actions related to EU security policy by assessing the consistency of member state activities with the EU objectives (unity), considering the political and financial resources committed to the area and evaluating the results of its efforts.

3.3.2 The governance ability to prevent, detect and punish behaviours that threaten or harm public order (crimes, contraventions) is indicated by the subfield of *public security.* Ability to defend against terrorism should be examined separately, but incorporated into the impact of public security.

Measuring *perception of public security* is a fundamental impact indicator of public security. The OECD also uses data measuring the confidence in local police as an indicator. Some of the law enforcement statistics could be *objective indicators*. The number of investigations of the typology of crimes (violent, property, vandalism) reflects the detection effectiveness. Yet this is distortive as an increasing number of crimes could actually indicate deteriorating public security. Besides delinquency, the absolute number of crimes is determined by changes in codified law or the technical, distortive impact of cumulative classification. Nor does the number of investigations show court judgments years later. The same applies to statistics of people caught in the act. An increase in the number of police, criminal prosecutors and criminal judges is also a relative impact, but still an input value that could have a positive impact direction. For an existing crime prevention strategy of the government, the achievement ratio of strategic objectives could be an outcome.

Measuring the effectiveness of measures to combat terrorism is most appropriate in the field of consequence management (managing disaster or emergency after terrorist attack). This converges to the efficiency measurement indicators of the disaster management system. In accordance with international norms, processes and standards, antiterrorism effectiveness is measurable. This means actions to reduce vulnerability of people, the public sphere, buildings and infrastructure. It is rather problematic to measure the efficiency of counter-terrorism, which is an offensive, preventive action to identify, arrest and counter terrorist attacks and terrorists, and antiterrorism, which includes measuring efficiency in the fields of intelligence and secret service. Counter-terrorism today requires a specially trained defence force, a specialized unit within the law enforcement forces. Indicators in relation to this are considered to be inputs.

3.3.3 The indicator surveying public opinion on protection against natural and industrial disasters could be the subjective impact indicator of the government's *disaster management* ability. Objective indicators can be: activity statistics, number of participants in disaster relief operations, integration and efficiency of the organization.

3.3.4 One of the essential elements of security is *trust in law-making.* It needs to be assessed comprehensively within the rule of law criteria of good governance (impact field No. VII). The broad content of rule of law as a main principle may relate to many dimensions: checks and balances limiting the power of the regime, effective judicial protection, open government, clear and predictable regulation, etc. The OECD's rule of law project applies the broad concept of legal certainty and creates possible indicators accordingly.[37] In the context of trust in law-making, the democracy impact field (impact field No. V) essentially focuses on trust in justice and in protection of fundamental democratic values.

The trust in legislation and sense of security based on this, which is the narrowest "formal rule of law concept", should be examined in the security and trust in government impact field. The formal approach places the quality of legal content under the broader concept of democracy and rule of law. The democratic criteria for law-making, such as public participation, are also shown in the democracy impact field.

This criterion is evaluated in many international measurements and defined as *quality of regulation*. Objective indicators of *trust in legislation:*

- The level of public access to law is measurable, i.e. by publishing an online legal database.
- Data of a deregulation process shows the codification standards of law. The number of violations of the Constitution stipulated by the Constitutional Court can indicate the quality of regulation. Amendments to new acts and new government decrees are also multi-factorial indicators, but the tendencies may constitute grounds to draw qualitative conclusions.
- Operation and ratio of pre- and post-regulatory impact assessment contributes to quality regulation.

Opinion surveys on legislation are rare because only a small proportion of society has the personal experience to gain perception. Furthermore, this is not considered a major public opinion aspect of good governance.

3.3.5 Trust in law enforcement

Law enforcement is a key element of international governance performance assessments. Competitiveness rankings include the efficiency index of the justice system. Law enforcement has a wider dimension here (including public administrative jurisdiction) and the social trust aspect is in focus. The OECD uses Gallup polls for measuring trust in justice.

Efficiency as it appears in international assessments is a qualitative indicator of jurisprudence, which may establish the evaluation of trust and security impact as an objective indicator:

- Number of objections to suspected partiality in judicial and administrative proceedings: conclusions can be drawn concerning trust and impartiality.
- Completing cases faster strengthens trust, so a sample survey is conducted on separate cases measuring average procedure time at first instance. Reduction of legal procedural deadlines also has the same effect.

In 2013, the EU launched an evaluation system in this field, the Justice Scoreboard, which builds on the database of the Council of Europe Commission for the Evaluation of the Efficiency of Justice (CEPEJ).

- Efficiency of justice systems: length of proceedings, number of pending cases
- Quality: judges in training, monitoring of judicial activities, budget and human resources for courts, use of ICT systems, alternative dispute resolution
- Independence: perceived judicial independence

3.3.6 Political stability of government

Security and trust also have a political nature, so political governance capacity and stability are sensitive features of these. Stability of governance can only be considered as a positive value in a democracy if the government is fully committed to core democratic values. Vice versa: political instability shows political weakness of the government, leading to bad governance. Stability to a government is more of a "circumstance" ruled by democratic principles than an ability. It is a circumstance that fundamentally defines the abilities of government.

The following indicators allow objective measurability:

- Achievements of government program (government strategies) objectives in a government term
- Parliamentary adoption ratio of government legislative proposals per annum
- Implementing legislation by government (i.e. a lack of implementing regulation, vacancies in positions as defined by the law, etc.)

3.3.7 Transparency of governance is a core value of democracy and rule of law, so this field should also be subject to performance assessment. Transparency is basically a result leading to trust. Indicators of transparency are also of great importance in the field of trust and security. Transparency can be divided into several topics:

1. anti-corruption
2. access to public data
3. public procurement
4. integrity of the public sector.

Possible objective input indicators:

- achievement ratio of government anticorruption program objectives
- corruption risk assessment system in the public administration
- access to public information, online public data inquiry activity
- transparency of government decision-making
- access to public procurement information
- integrity assessment system in public administration
- regulation and enforcement of ethics in the government sector
- lobbying regulation
- whistleblower protection system
- integrity management system in public administration

Corruption perception measurement is based on international indexes: EU Annual Anticorruption Report, the Global Corruption Barometer survey (GCB) conducted by Transparency International, the Bribe Payers Index (BPI), and the Global Corruption Report (GCR). The Global Integrity Report[38] survey also analyzes corruption through more than 400 questions regarding the state of corruption in the given country.

Availability of public data strengthens the output indicators of transparency.[39] The OECD Good Governance assessment has introduced Open Government Data indicators in 2013. It measures accessibility, i.e. if there is a one-stop-shop type portal and how many datasets they use. The assessment places fiscal and financial transparency and accessibility in focus. With regard to availability and usability, the methodology of the Open Data Index[40] is worth highlighting. The Open Data Index (ODI) was first compiled in 2013 by the Open Knowledge Foundation (UK) to make the availability of open government data of the countries measurable by analyzing some key databases. The index contains data from more than 60 countries – including Hungary – and is updated and reviewed every year with he assistance of experts from the country concerned. Evaluation results are weighted based on the following quality criteria:

- does the data exist/is it recorded? (5)
- is data in digital form? (5)
- is it publicly available? (5)
- is data available for free? (15)
- is data available online? (15)
- is data available in bulk? (10)
- is data openly licensed? (30)

Integrity has also become the key term in relation to transparency also in the *public sector*. The OECD measures the integrity of the public sector with the following indicators: managing conflicts of interest, whistle-blowing, whistle-blower protection, corruption prevention measures in public procurement, open governance and access to information legislation (2011 OECD GaaG).

3.3.8 Trust in government is based on the secure basic standard of living. This should be evaluated in line with individual security aspects (public security, legal certainty). Improvements in social and healthcare conditions are to be evaluated in the field of community wellbeing and quality of life. The governance ability to guarantee the minimum living conditions is assessed by the secure standard of living.

Secure standard of living related public policy actions are manifested in the following:

- maintaining income security (i.e. providing a social minimum through social security schemes, guaranteed minimum wage)
- labour market policies (i.e. unemployment benefits, supporting return to the labour market, public employment, training and vocational training)
- providing habitable conditions (i.e. support to people who lose their homes, social rental apartments)
- combating childhood poverty (school meals programs)
- compulsory health insurance
- homeless social care

Hungary initiated its National Social (Roma) Inclusion Strategy in conjunction with the Europe 2020 poverty target indicators for Hungary. Reports by the European Commission and other international organizations also use indicators to monitor the wellbeing of children.[41] ESSPROSS (European System of Integrated Social Protection Statistics) provides suitable indicators.

Possible objective indicators in GGI:

- percentage of population below poverty line (impact)
- support to people who lose their homes (input)
- homeless social care (input)
- social minimum guarantees (result)
- percentage of the population covered by health insurance (impact)
- minimum wage statistics (result)
- governmental school meal programs (input)

3.4 Community wellbeing

The community wellbeing impact field, which is often identified as quality of life, is considered to be a comprehensive indicator system.[42] Referring back to philosophical views of good governance, happiness and the "good life" for people can prove the worthiness and efficiency of government actions. Wellbeing, the measurement methodology for quality of life, also contains objective and subjective, and complex and specific indicators.[43] However, it is also vital to represent "the community" aspect alongside individual wellbeing, i.e. equitable taxation.

The OECD Better Life index is a perception-based assessment that could also be completed online on the organization's website and provided very interesting country averages and country profiles. The index is based on the following indicators: housing – income – jobs – community – education – environment – civic engagement – health – life satisfaction – safety – work-life balance.

The Human Development Index (HDI) is the United Nations' most recognized quality of life assessment. It views the measurable target of progress to be to create an attractive environment that enables people to live long, healthy and creative lives. The HDI evaluates and averages results in the dimensions of long and healthy life, knowledge building and fair standards of living. It also measures the equal opportunities factor evolved as part of the progress, providing a negative percentage to the actual progress (inequality-adjusted HDI). The Gender Inequality Index (GII) is a measurement of gender disparity evaluating unequal opportunities for women in the fields of reproductive health, empowerment, and labour market participation. The Multidimensional Poverty Index (MPI) uses household micro data to determine poverty categorization.

3.4.1 There are many objective indicators to consider that describe *financial conditions*.

- *Net disposable income of households*: as well as measuring net household income, it has increasingly widespread to measure net household disposable income, which also takes into account household consumption expenditure.
- *Household savings*: the gross saving rate of households is defined as gross saving divided by gross disposable income. Saving is the remaining disposable income not used for final consumption expenditure.[44]
- *Household debt*: can be measured by self-assessment (Statistics on Household Income and Living Conditions conducted by the Central Statistical Office), or by banking statistics provided by the Hungarian National Bank.[45] Of the Eurostat statistics, household debt to GDP ratio is one of the valuables to use.
- *Poverty rate*: in Hungary, this is defined as the proportion of households or persons living below 60 percent of the median equalized income in the total population.[46]
- *Severe (material) deprivation rate*[47]
- *Rate of top and bottom income quintiles*[48]
- *Social expenses per capita* as percentage of GDP[49]
- Amount of average family assistance per family (in Hungary this refers to the family allowance)[50]
- Comparison of pensions (between ages 65 and 74) and pre-pension earners' income (between ages 50 and 59) show how successful the state is in assisting the elderly in maintaining their standard of living.[51]

3.4.2 *Life expectancy at birth* is the most common health status measure with respect to community wellbeing.[52] This is adjusted by the healthy life years (HLY) measure. The healthy life years indicator has many factors, not all of them related to the quality of health care. The European Health Interview Survey (EHIS) is based on individual answers and contains information on perceived health status, health behaviour and limitations in daily activities. Government actions are judged to the greatest extent by total expenditure on health as a percentage of GDP (OECD methodology). The correlation between higher health care expenditure and better health status is an evergreen issue.

3.4.3. *Access to knowledge and education* is a component of wellbeing. Effectiveness assessments on public education (i.e. the well known PISA study[53]) can evaluate effectiveness of government actions of 5-10 years ago. Knowledge level and access to knowledge as an element of quality of life must be evaluated through education-related public inputs. The OECD Education at a Glance Report publishes data on the level of qualification by age group and level of education, on expected time in education, on graduation (early school leaving) rates, on public expenditure per student and by level of education.

This quantitative information gives a picture of governance abilities concerning access conditions. Increasing the share of young people with higher education qualifications[54] and public spending on education as a percentage of GDP[55] are of strategic importance (EU 2020 strategy).

3.4.4 *Housing indicators* show the quality of conditions that houses can provide and compares housing costs against income.

Housing expenses ratio is defined as the spending on housing compared to gross adjusted disposable household income.[56]

Average number of rooms per person is measured by the OECD Better Life Index, while the Hungarian Central Statistical Office (CSO) publishes total population per 100 rooms. *Computer and broadband internet access in households has become standard to quality of life (CSO).*[57]

3.4.5 Work is an aspect of community wellbeing; its measure is the employment rate. The single EU employment statistics (European Union Labour Force Survey (EU LFS)) are one of the data sources, while the other are national accounts. Governance ability regarding employment promotion issought in the economic impact field, but the various government actions of public employment can also be regarded as input values. *Employment of disabled and changed capacity people also requires a separate indicator* in this impact field.

3.4.6 *Equitable taxation* is a community subfield of wellbeing. According to the principle, all are required to contribute their share to public expenditure and the tax burden shall be equal for all, resulting in the same usefulness being foregone. The number of taxpayers and the shift in proportion from income tax to consumption tax, inter alia, establish bases for the evaluation of equitable taxation.

3.4.7 There are many examples of general subjective indicators of community wellbeing: besides the above mentioned OECD Better Life index there is also the Eurostat EU-

SILC[58] public survey. In Hungary, the Central Statistical Office assesses subjective wellbeing on a scale of 1 to 10.[59] Respondents evaluate how happy their life is, how satisfied they are at work, in their private life, how successful and useful they feel in their hobbies and sports, and how much they trust people.

3.5 Economic competitiveness and fiscal stability

This is one of the most complex impact fields of good governance, in which fiscal stability and a competitive economic environment are closely interconnected, yet a clear distinction also can be drawn between them.[60] Competition and economically oriented state theory (i.e. World Bank) employs economy-based governance assessment indicators, since all social and government processes and effects are evaluated in light of the economy and competitiveness. This theory approaches good governance as an ability of government to establish and support institutions of a functioning market. Given that other impact fields are also studied, economic competitiveness is analyzed in a narrower spectrum. Effects of fiscal stability and growth are to be evaluated in a complex way and long term; the baseline benchmark approach is not truly suitable for positioning government performance in a global competition. This function is performed by international rankings and competitiveness indexes and reports.

3.5.1 IMD (Institute for Management Development) analysis is based on 4 main factors:

- *economic performance* (79 criteria to evaluate macroeconomic performance)
- *government efficiency* (70 criteria to measure the extent to which government policies are conducive to competitiveness)
- *business efficiency* (71 criteria to measure the extent to which the national environment encourages performance in an innovative, profitable and responsible manner)
- *infrastructure* (113 criteria to measure the extent to which basic, technological, scientific and human resources meet the needs of business)

Budgetary and public financial sub-indicators of government efficiency:

- Government budget surplus/deficit ($bn)
- Government budget surplus/deficit (GDP%)
- Total general government debt ($bn)
- Total general government debt (GDP%)
- Total general government annual real debt growth
- Central government domestic debt (%)
- Central government foreign debt (%)
- Interest payments (%)
- Public finances (survey, are they being efficiently managed?)

- Tax evasion (survey, does it pose a threat to the economy?)
- Pension funding (is it adequately addressed for the future?)
- General government expenditure as % of GDP
- Collected total tax revenues (GDP%)
- Collected personal income tax (GDP%)
- Collected corporate tax (GDP%)
- Collected indirect tax revenues (GDP%)
- Collected capital and property taxes (GDP%)
- Collected social security contribution (GDP%)
- Effective personal income tax rate (percentage of income equal to GDP per capita)
- Corporate tax rate on profits (maximum tax rate, calculated on profit before tax)
- Consumption tax rate, standard (rate of VAT/GST)
- Employee's social security contribution rate
- Employer's social security contribution rate
- Real personal taxes (survey, taxes do not discourage people from working or seeking advancement)
- Real corporate taxes (survey, taxes do not discourage entrepreneurial activity)

The institutional framework is evaluated by the following sub-indicators:

- Real short-term interest rate
- Cost of capital (survey, whether this encourages business development)
- Interest rate spread
- Country credit rating (assessed by the Institutional Investor Magazine ranking)
- Central bank policy (survey, does it have a positive impact on economic development?)
- Foreign currency reserves ($bn)
- Exchange rate stability (Parity change from national currency to SDR, 2012 / 2010)
- Legal and regulatory framework (survey, whether it encourages the competitiveness of enterprises)
- Adaptability of government policy (survey, whether adaptability of government policy to changes in the economy is high)
- Government decisions (survey, whether government decisions are effectively implemented)
- Transparency (survey, if transparency of government policy is satisfactory)
- Bureaucracy (survey, bureaucracy does not hinder business activity)
- Bribery and corruption (survey, does bribery and corruption exist?)

Societal framework is measured by the following sub-indicators:

- Justice
- Personal security and private property rights (survey, whether they are adequately protected)
- Ageing of society (survey, whether it is a burden for economic development)
- Risk of political instability (survey, whether instability is present)
- Social cohesion
- Gini index (distribution of income scale: from 0 (absolute equality) to 100 (absolute inequality))
- Income distribution – lowest 10%
- Income distribution – highest 10%
- Women in parliament (%)
- Women on boards (%) (analyzed by GMI)
- Gender inequality (Gender Inequality Index (UNDP))

3.5.2 *WEF's (World Economic Forum) indicator structure*

- innovation
- business sophistication
- market size
- technological readiness
- financial market development
- labour market efficiency
- goods market efficiency
- higher education and training
- macroeconomic environment
- infrastructure
- institutions, health and primary education

3.5.3 The *World Bank Doing Business Report* provides indicators to measure challenges and problems faced by businesses. The report examines all permits and regulatory obligations businesses are required to obtain and fulfil when starting a business. The index averages the component indicators covering 10 topics of business operation. Each component of the survey is evaluated by factual, quantifiable measures.

3.5.4 The *OECD GaaG* measures the debt ratio and balance of the different levels of budget.[61] Statistical indicators are set up to show the structure of central government revenues and expenditure, investment spending, production costs and outsourcing practices. The extent of regulation, flexibility and performance orientation is subject of the evaluation as well.

3.5.5 A feature of the NUPS GGI competitive economic environment-related assessment is that almost all aspects of every other impact field could be framed in this. It follows the narrower approach, allowing other impact fields to measure numerous factors primarily: i.e. corruption, judicial independence, trust in government, etc., to predominantly appear in other impact fields. These are collectively referred to as part of the institutional framework and institutional environment by competitiveness rankings. The energy economics framework is also a matter of competitiveness, but also a sustainability issue.

Education and healthcare concerning knowledge capital and human capital with the aim of enhancing competitiveness are studied primarily by the community wellbeing working group. Education should be considered one of the major competitiveness factors; yet its effect may be measured by the employment rate of graduates (OECD EAG). Government Research and Development funding is also to be considered and evaluated as part of economic development.

International rankings typically take a competitive (comparative) or normative assessment approach. The *baseline benchmark approach* is fundamentally different, which may consider a weak infrastructure result as good government performance in the event of a relative improvement in this field.

Governments have the following tools at their disposal to maintain fiscal stability: budget, taxation, redistribution and monetary policy instruments (inflation, interest rate).

Fiscal stability indicators may include:

- government budget deficit/surplus as a percentage of GDP
- level and share of foreign currency reserves to foreign currency liabilities with a maturity of up to one year
- level of foreign exchange reserves to international balance of payments
- general government gross debt to GDP rate
- scale of debt, share of national and foreign currency in debt

Competitiveness indicators of the labour market may include:

- the age structure (demographic trends to be evaluated in the sustainability impact field)
- migration, distribution structure
- qualification indicators (higher education graduates, high school degree, vocational training)

World Bank Doing Business indicators are excellent for measuring *business environment*.

A Hungarian example of a government action to improve business environment is the steps taken towards business simplification. The so-called *Hungarian Simplification program* (2011-2014) included the following inputs and outcomes:

- reduced administrative burden: legislative amendments simplifying administrative processes (reducing the number of documents and certificates, administrative deadlines, administration times)
- extension of One-Stop Shop Offices (integrated front-offices of Public Administration)
- simple administration: no personal presence required (e-filling, data reporting, e-administration, certificates provided by public registers)
- client burden becomes task of the office
- more unified card scheme (more certifications on one card), more procedures in one (competency integration)
- simplified forms (content, number of forms)
- elimination of procedural duties and fees, or the reduction of them
- automatic client notifications via e-mail or SMS

Government measures to promote *innovation and knowledge intensive development*

- public R&D spending as % of GDP (EU2020 objective)
- number and share of R&D personnel in total employment

EPSIS (European Public Sector Innovation Scoreboard) could be a relevant source as it carries out measurements in three aspects (enablers, activities, outputs)

- "Enablers" human resources (i.e. employment share of creative occupations, share of employees in public administration with a university degree); quality of public services (i.e. government effectiveness, regulatory quality, online availability of public services, e-government development index, etc.)
- "Activities": capacities (i.e. share of service innovators that innovate in-house, share of process innovators that innovate in-house); drivers and barriers (i.e. importance of internal and external barriers to innovation, active management involvement in innovation, importance of external knowledge, etc.)
- "Outputs": innovators (i.e. share of organizations in public administration with services, communications, process or organisational innovations, public sector productivity, etc.); effects on business performance (i.e. improvements in public services for business); government procurement (i.e. government procurement as a driver of business innovation, importance of innovation in procurement)

State aid/tax relief policy (EU funds distribution included), government-sponsored investment activity. Economy effectiveness indicators are to be assessed based on an international average, particularly in the public sector i.e. unit investment (e.g. motorway) cost or quantitative parameters of corporate governance.

Infrastructure primarily means the environment created by transport, logistics, IT and technology. Indicators are well quantified (length of rail, length of motorway, IT penetration).

3.6 Democracy

In the democracy impact field, activity competence of the government in states under the rule of law is limited as it is a constitutional competence. Within the framework of the constitution, a government commanding a simple majority in parliament can only influence the rules of democracy minimally on a statutory basis. This means that *the entire political elite, and all parties in parliament, are fundamentally responsible for the enforcement of democratic values.* Evaluating good governance, defined as the actions of government, by considering the indicators on the state of democracy can lead to limited conclusions.

International assessments typically measure in a broad interpretation the broad spectrum of the functioning of institutions, rule of law and fundamental rights in this impact field. Examples are the Polity IV index or Freedom House democracy index report. [62] The Economist's Democracy Index or Human Development Index considers good governance to be a complex democratic matter.

The OECD GaaG includes equal opportunities (women in governance) and social involvement among the most fundamental matters of democracy to the report.

Since the Centre research comprises many impact fields, a narrow, procedural democracy concept focusing on electoral competition and political involvement is more appropriate to the democracy impact field.

3.6.1 Political pluralism and political competition is one of the key aspects in defining democracy (Freedom House, Polity IV indicator-series, a World Bank DPI, the Poliarchy Dataset or the Vanhanen-index). Rules, mainly constitutional and statutory, influencing objective measures are beyond a government's competence. Candidate nomination rules, the number of registered parties, the number of party lists contesting, and the number of parties winning seats. Subjective indicators measure i.e. freedom of (political) association, such as Freedom House, Poliarchy Dataset, The Polyarchy and Contestation Scales (scale 1-4), or the fairness of elections (Freedom House, Bertelsmann SGI).

3.6.2 Political involvement is the other key democracy definition of common good. Objective measures include voter turnout rate or the number of referendums and their turnouts.

3.6.3 Open public dialogue, social debate is a criterion in relation to transparency of governance an open government. OECD GaaG assesses "inclusive" public policy processes, it is an objective measure for example of the number of participants in an online public consultation on an issue such as a government strategy or a proposed bill. This democracy criterion can be measured by public consultation forms with quantifiable indicators as inputs to government decision-making processes. Online public debate is an obligatory element of Hungarian legislation.[63] The Council of Europe outlined types of indicators in its Code of Good Practice for Civil Participation (CONF/PLE(2009)CODE1).

3.6.4 The Rule of law and the legal certainty aspect is used by most democracy indexes (see Freedom House "checklist", the Economist Intelligence Unit report). The formal assessment of legal certainty from the trust in legislature point of view is undertaken in the trust in government impact field. Effectiveness of judicial protection, the evaluation of the rule of law in context, judicially, and in view of fundamental rights (human rights), and the broader guarantees for rule of law (transparency, privacy) are to be considered as a separate impact field (impact field No. VII).

3.6.5 Press freedom indexes are mainly based on perception measurements. The Freedom House index on press freedom is decisive. Objective criteria can be developed on certain guarantee elements of media regulation, i.e. balance and fair public media, sanctioning criteria, and judicial remedies.

3.7 Sustainability

The sustainability impact field is able to integrate – to a greater extent than others – most components of good governance. Governance has few effects or outcomes that could/should not to primarily be handled as a matter of sustainability. The logic of this is that sustainability places these present-day mechanisms of action into the future time dimension. Thus, a dual interpretation and evaluation of the impact field is also possible: the present and the sustainable. Indicator selection is determined by the parallel preferences of other impact fields in GGI research, i.e. economic competitiveness and community wellbeing. Therefore, the sustainability impact field "is sharing" indicators.

Most comprehensive indicator-systems aim to follow-up the process of sustainable development. Sustainable development was first defined in 1987 in the Brundtland report issued by the World Commission on Environment and Development committee of the UN.

The report defined sustainable development as „development which meets the needs of current generations without compromising the ability of future generations to meet their own needs" (United Nations 2007). The concept describes three pillars of sustainability: social, economic and environmental pillars. To monitor sustainable development, countries either follow the guidance and standards of international organizations (United Nations 2007, European Commission 2009), or develop their own practices, as numerous counties have done. In addition to the HDI already mentioned, there are several more indexes to study:

System of Economic and Environmental Accounts – (SEEA); Living Planet Index (LPI), Ecological Footprint (EF); Happy Planet Index (HPI); Environmental Performance Index (EPI); Genuine Progress Indicator (GPI); Index of Sustainable Economic Welfare (ISEW) and Simplified Index of Sustainable Economic Welfare (SISEW); GDP GINI index; Natural Capital Index (NCI); Global Reporting Initiative (GRI) – sustainability reporting framework. The Central Statistical Office reports indicators of sustainable development.

3.7.1 Social sustainability

This may include *population and demographic trends*. Others do not consider population growth a criterion, or even consider it to be a mechanism countering sustainability, especially in global terms. This should typically be evaluated positively or negatively on a local, national basis – within the framework of good governance. In Hungary and in most European countries reproduction is declining, thus birth rate – and government actions encouraging childbearing (maternity leave, employment of mothers, allowances) – should be evaluated positively.

Social cohesion is interconnected with the definition of community wellbeing. Indicators to be assessed under social equality:

- statistics on low levels of education
- government actions supporting people with disabilities (input)
- segregation indicators
- anti-segregation policies and actions (input)
- employment rehabilitation
- gender equality indicators

Social sustainability measurements may also include *work and employment tendencies*. Other indicators measuring social cohesion might be *pension insurance guarantees, allowances and benefits supporting families, child welfare services, child protective services, child protective government actions (judicial, state-financed holiday camps) and youth protection government actions*. Increasing knowledge capital is an economic competitiveness and a quality of life factor covered by the other impact fields above. Social progress is reflected in: *higher education graduates ratio by age groups, early university leavers' ratio, public spending on higher education as a percentage of GDP* (including student loans), and public spending on R&D.

3.7.2 Environmental sustainability

The UN is continuously improving its Framework for the Development of Environmental Statistics, which forms the Core Set of Environment Statistics. Environment statistics indicators available include:

- the ecological footprint estimates the amount of space on the earth that an individual uses, including energy, food, water, building materials and other consumption, as well as biologically productive land
- environmental protection expenditure
- environmental policy actions
- share of renewable energy in gross consumption
- final energy consumption (direct/indirect energy-consumption breakdown by primarily energy source),
- extent of material consumption
- consumption of natural resources, waste management (Central Statistical Office)
- carbon emission levels (VAHAVA)
- water protection (water consumption breakdown by source)
- total emissions and waste
- share of environment friendly goods and services

3.7.3 Economic sustainability

Indicators of economic sustainability are selected to correct the growth-oriented economic competitiveness approach, such as

- municipal solid waste per capita
- ratio of local products to total consumption
- share of environmental taxation in total taxation
- education and raising of awareness regarding sustainable consumption

3.8 Efficient public administration

Good public administration is a prerequisite for good governance. Also, public administration counts as the means of the state to take action. The basic principles, introduced by the European Council Recommendation (2007) on good public administration, establish the goodness of public administration by the basic values of the rule of law: legality, equality, impartiality, proportionality, legal certainty, proceeding within reasonable time, involvement, respect for privacy, and transparency. Those criteria for good public administration are to be examined by the evaluation of principles of the rule of law and in its impact area (VII.).[64] On the other hand, a further aspect of good public administration is the concept of efficiency. The preamble establishes that good public administration implies that services have met the basic needs of society. This is dependent on the quality of organisation and management and on satisfying requirements with respect to effectiveness and efficiency.

Public administration is examined as the efficiency factor of good governance in the given impact area. *In the service of governmental goals, public administration counts as the means, so the outcomes and impacts of the governmental activity may only be evaluated through governmental abilities and effects.* It is the effective public administration on which every governmental ability rests, and as such serves as a general (horizontal) input to the governmental action. The concept of efficiency refers to the role of public administration described as administrative machinery (administration), and which supports, like any infrastructure, governmental operation.

Public administration itself is not in the least examined separately by the OECD GaaG 2013, which measures instead the accessibility and quality of public services. The OECD indicators under examination are:

- access to public services: affordability (health care, education, justice)
- online access to public services (the number of users)
- the public service in terms of time: the velocity of proceedings (tax refunds, waiting lists in hospitals, first-instance proceedings)
- regulation of citizen rights,
- citizen satisfaction with police, education, and health
- number, structure and remuneration of public service staff

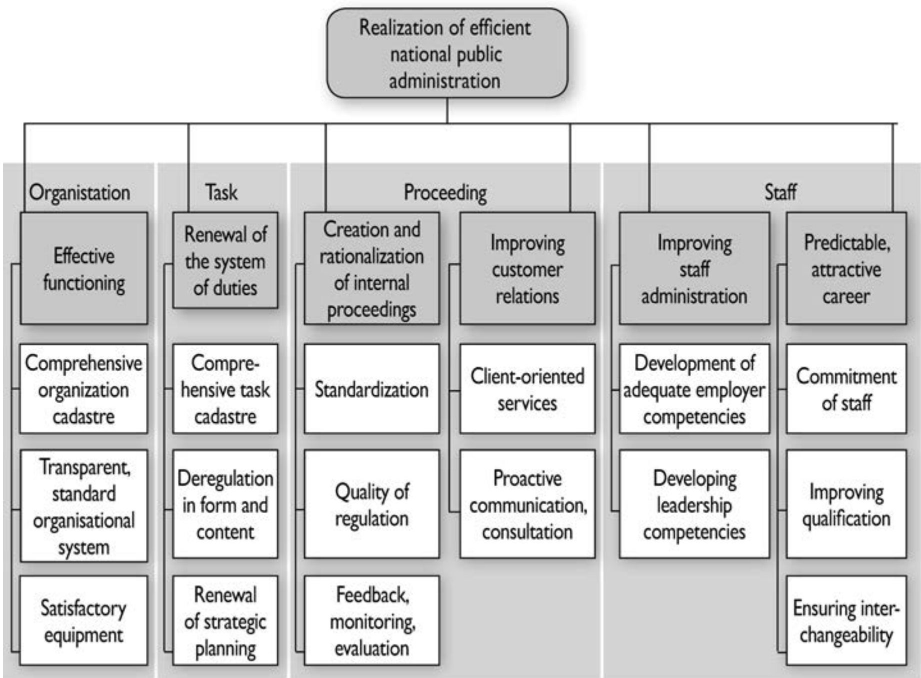

Figure No.1.

In the past, the GaaG 2011 investigated staff management in public service, its admission system, the performance evaluation system, and the career development system in more detail (2011 GaaG VI. Human Resource Management Practices). A separate section was devoted for regulatory practice (2011 GaaG VIII. Regulatory Management), as well as for the practice of e-government.

The Hungarian Public Administration Reform Program (2011-2014) pointed out 'effective national public administration' as one of the prerequisites of a good state. The concept of efficiency sets out the framework for the set of concepts for performance evaluation in public administration.

- outputs: what are the products and services delivered by public administration to organisations in public sector?
- outcomes: do the processes of governance enable the sectors to increase their performance?
- inputs: what are the (organisational and human) resources and (social and individual) efforts needed to be put into the realisation of all goals?

3.8.1 The systematic parameters of the *organisation of public administration* provide no evaluable indicators for measuring the efficiency of public administration. In addition, organisational reforms, the conversion of the organisational net to make it more transparent, decentralization or deconcentration, and the reduction of the number of people in the organisations (downsizing) all aim for an ever more effective operation. *These organisational measures, however, are less applicable for assessing efficiency. Tasks and services determine the quality of public administration in a direct way.* Politicians consider customer satisfaction the primary indicator of efficiency in public administration. Rapid, simple, regular and fair administration. From this point of view, it has no relevance what kind of organisation and resources (costs, staff) are are in place. As Bovaird's example shows: it is only "the satisfaction of the concert audience that matters", it is never the piano, nor the pianist, nor any material condition. Regarding impact indicators, this approach may be appropriate. On the other hand, results and inputs are necessary for the evaluation of governmental ability to affect efficiently. Within this meaning, quality indicators can be optimised for the organisation of public administration.

3.8.2 According to the Eurostat (ESA 95) resolution, it was necessary to apply indicators to measure collective public services (general public administration services). Presuming that the state provides more and better means (either specifically or per process) for procedures of utmost importance, public services are to be converged to the proportion of the social efforts and inputs (measured on a long run to avoid a technology influenced estimation):

- What is the average amount (originated from tax) paid out in public (per process)?
- What is the average number of officials when addressing a case?
- What is the average number of decision-making points until the process is closed?

However, all the positive results of efforts may be overwritten by customer satisfaction (which may turn everything to its opposite, too). It is necessary to establish a cohort of customers (as per process type, and also for business customers and citizen customers) and to index the factors below in order to measure the dynamics of satisfaction:

- Time
- Costs
- Accessibility
- Satisfaction
- Professionalism
- Digitisation (sophistication) level
- Accessibility for the disabled

Simplification inputs in Hungarian practice (2011-2013) contributing to efficiency:

- reduction of verification and administrative burdens on clients
- integrated administrative opportunities at a single desk (one-stop-shop); the number of existing customer services operated by the authorities: integrated customer services as the most possible processes under one roof
- e-management (more possible routes to act, e-filing, data services, e-administration, verifications of official data)
- customer requirements changed to authority requirements
- unification of identification cards (more in one) several procedures in one (competency integration)simplified forms (content, number of forms)elimination of procedural duties and fees, or the reduction of them

3.8.3 The *quality of staff of public administration counts* as an input-indicator, the measureable parameters are for instance:

- regular further training, leadership training and career development examination system
- individual competence assessment and development plan (AC/DC)
- regulated and prevailing standards of professional ethics
- performance assessment
- self-organisation of officials – culture in public services
- integrity-management system
- whistle-blower (protection) system against corruption within authorities
- authority engagement evaluation

3.9 Rule of Law criteria of good governance: effective protection of fundamental rights

It is questionable if it is possible to gain from the concept of rule of law standards that produce a reasonable interpretation narrowed strictly in terms of governmental activity. The rule of law, that is to say, is the abstract culmination of the basic principles of legal (primacy of law) and political science (equality of rights and democracy) in terms of the state in action. Criteria of good governance are therefore to be interpreted comprehensively and in all dimensions of state in action. The operation of the government is one of the segments of the state in action, one part of 'the big picture'. There is no good reason to mark out special criteria of good governance in terms of rule of law. Accordingly, the government itself is obliged to obey the regulations of the rule of law. The Hungarian government has been received severe international criticism for violation of rule of law standards since the constitutional process for the new fundamental law started in 2011. The government has the power, depending upon its political/parliamentary strengths, to amend the constitutional conditions of the rule of law. This being the case, the evaluation of the relationship between values of the rule of law and good governance may be appropriate.[65]

The fundamental law (constitution) and the laws guaranteeing the enforcement of the fundamental rights contain the objective indicators of the rule of law criteria on a national level. Should the criteria for rule of law, based on a common accord within the EU, exist, then these are to be found in the Charter of Fundamental Rights and the Treaty of Lisbon (2009). The declaration of values for rule of law in the EU states is the following: '*The Union is founded on the values of respect for human dignity, freedom, democracy, equality, the rule of law and respect for human rights, including the rights of persons belonging to minorities. These values are common to the Member States in a society in which pluralism, non-discrimination, tolerance, justice, solidarity and equality between women and men prevail.*'[66] Again, the Preamble of the Treaty on the European Union enhances the member states' commitment to the respect of freedom, democracy, human rights and fundamental freedoms, and to the principles of the rule of law. This role may not be appreciated enough, given that fierce debates took place already in the Convention that prepared the constitutional treaty of the EU around whether it was worth keeping a reference to traditions if the Charter of Fundamental Rights already addresses them in its legal rules. Furthermore, the case law, built on the constitutional traditions of the member states, has been incorporated into the Charter, and as such shows no significant differences in comparison to the fundamental legal systems of the member states.

The Treaty of Lisbon accomplished a substantial reform for article 6 of the TEU by making the rights, freedoms and principles laid down in the Charter legally binding and an integral part of the legal system of the union. The Treaty of Lisbon also required the EU to be granted access to the *European Convention on Human Rights* and, as the general principles of the legal system of the union, preserved the previous system of unwritten basic rights. These legal principles are part of European heritage and such constitutional traditions include the principles laid down in the constitutions standing on top of the hierarchy of legal systems in the member states.

It is necessary to observe the standards and reports of *the Venice Commission of the Council of Europe,* as well as the democratic development of public institutions, the protection of human rights, the constitutional, judicial and ombudsman-related questions, as well as the country-specific data in connection with elections and referenda.

It is one of the fundamental requirements of the rule of law that public authorities should carry out their activities within the organisational framework of the law, in the operational order established by the law, and within the restrictions laid down in an accessible and predictable law. These requirements of the formal rule of law have been interpreted by the Hungarian Constitutional Court in many decisions [56/1991, (XI. 8.) Constitutional Court Decision, ABH 1991, 454, 456]. The requirement for respect of the legal frameworks pertain not solely the observance of constitutional regulations, but also determines the relationship between state and law on any level of the legal hierarchy below the fundamental law. The state itself is obliged to obey its own laws and other legislation, too.

We may refer back to the interpretation of the English 'rule of law', according to which the three main criteria of the rule of law (states with the primacy of law) are as follows: 1. decisions are predefined by the law instead of arbitrary decisions 2. everyone is equal before the courts and the law 3. the constitution derives from human rights and it is the courts' duty to enforce them.[67] The concept of rule of law was linked to the principle of the separation of powers in the United States of America.

International aspirations are several for measuring and evaluating the rule of law. The UN Human Rights Council evaluates member states within the framework of the Universal Periodic Review (UPR) concerned with the human rights situation of the UN member states. National reports form the basis for the review, in which reports must be created on the normative and institutional system, fostering and defending human rights (in particular the constitution, the legislative process, the political decisions and measures related to human rights), case law, human rights institutions, as well as international undertakings pertaining to human rights. Moreover, new research on the rule of law has also been launched at the UN.[68]

The measurement of rule of law produced by Freedom House evaluates basic criteria such as: Can independent jurisdiction exist in real terms? Can the principles of rule of law be enforced in civil and criminal cases? Can the police be placed under civil control? Can there be a possibility for effective defence and prevention against political violence? Can the law and legislation guarantee equal treatment for everyone?

An interesting example of international experiments is *The World Justice Project (WJP) Rule of Law Index*.[69] This index is based on a record derived from experts and the public and developed by a non-profit organisation in the United States of America. Four principles form the basis of the index: *accountable government, good laws, and good processes and access to justice.* The Rule of Law index gives standardised scores (see above) in eight dimensions. The survey was carried out in 66 countries and was supported by public opinion polls and questionnaires as its two main data sources. The questions related back to general feelings, in many instances hypothetical situations of standardized assumptions were raised, and they were, as a rule, experience-based questions. It was the (practical) fidelity to the rule of law in a particular country that the index was intended to measure. Eventually, the OECD 2013 GaaG accepted the results of the WJP for the purposes of measuring rule of law.

Conclusion

Today's literature paraphrases *the value dilemmas of the quality of governance* according to the Neo-Weberian philosophy, replacing the new public management approach. The approach, focusing on the public administration of the rule of law, strong executive power and public authorities, has been built on the critique of the management paradigm of the previous two decades (1990'-2010).[70] The philosophies of government prior to the economic crisis in 2008 are now being denied with new goals and principles due to the economic crisis and the corruption of governments. However, neither the schools of public policy nor the principles of the Neo-Weberian approach can provide a straightforward response to current value dilemmas. There is no clear scientific answer, these count not more than expert evidence. The basic question of social science whether there can ever be fact-based value creation and objective evaluation. The scientific schools repeatedly beat a hasty retreat when real economic and social effects, social feelings, are in contradiction with the causal logic and conclusions made in a 'laboratory environment'. The dispute on the value requirements pertaining to governance are therefore the place for the democratic differences of opinion. Beside international measurements, only evaluations on national level, statistical indices, and the variety of rankings are able to symbolise the value relativism that presides over the notions of governmental goodness and efficiency. It is not a crisis of values, but rather an undertaking to search for values. The world of our time is open to new, experimental and 'alternative' measuring and evaluation systems. In addition to the efforts of economic and political consultants to provide rankings, science ought to undertake a greater role in searching for and evaluating values. The history of Hungary after 2010 illustrates that innovative governmental means, and the ability to bring about positive social and economic effects, are available and meaningful only for demagogy-free governmental philosophies, and to schools of public policy and economy.[71] Yet international and national government trends are only just embarking on the journey to learning in the wake of the economic crisis.

Questions

1. Can be rankings and indicators of international organizations (such as OECD, WB, UN) tools for a value-based qualitative assessment of governments, their performance and the public good? If so, under what conditions can they be used for?
2. What are today's typical conflicts between social and economic public values and how do good governance indicator systems reflect to them?
3. What are the most critical elements of recent 'well-being' measurement systems?
4. Good Governance Index (GGI) model is a framework for assessment of a national government's performance to implement public values. To what controversies shall GGI input/process/output/outcome indicators and its logical framework face?

5. Is it feasible to measure confidence in government by objective (non-perception) indicators? Can security indicators be related to the confidence index, if so, under what criteria?
6. What ambiguities can be identified between business competitiveness and the sustainable development of a country?
7. Are there universally accepted values of democracy as global public goods?

Endnotes

1 Nagy Márta: "Ambrogio Lorenzetti: A Jó Kormányzás Allegóriája – erényábrázolások az itáliai trecento művészetben és antik előzményeik" (Márta Nagy: "Ambrogio Lorenzetti: Allegory of Good Governance – virtue depictions of Italian Trecento and its antique precedents) in. Acta Academiae Pedagogicae Agriensis, Nova Series Tom. XXXIV, Eszterházy Károly Főiskola, Történelemtudományi Intézete, (Károly Eszterházy College, Institute for the History of Science) 2007).

2 Tony Bovaird, Elke Löffler: Evaluating The Quality of Public Governance: Indicators, Models and Methodologies, International Review of Administrative Sciences, 2013, 69. 327.

3 European Strategy for Smart, Sustainable and Inclusive Growth 2020

4 A comprehensive review was conducted by György Hajnal and Gábor Pál: Some reflections on the Hungarian discourse on good governance in Iustum Aequum Salutare IX. 2013. 2. • 95–106.; for further statements of principles see: Andras Zs. Varga: Alternative Control Instruments over Administrative Procedures: Ombudsmen, Prosecutors, Civil Liability Passau: Schenk Verlag GmbH, 2011. 64 p.; Patyi András: Jó kormányzás, jó közigazgatás, jó állam és jó egyetem, in Acta Humana 2013/1. 35-49.; György Jenei: Adalékok a public policy szemlélet értelmezéséhez (Supplements to the Interpretation of Public Policy Approach). Nemzeti Érdek, 2007/1. 5–27.; András Torma: Adalékok a szervezéstudomány irányzataihoz. Sectio Juridica et Politica, Miskolc, Tomus XXV/2. 2007. 463–429. ; György Gajduschek: Governance, policy networks – informális politikai szereplők a döntéshozatalban (Governance, Policy Networks – Informal Political Actors in Decision Making). Politikatudományi Szemle, 2009/2. 58–80.; Adrián Fábián: Közigazgatás-elmélet (Public Administration Theory) Budapest, Dialóg Campus, 2010.; G. Fodor Gábor – Stumpf István: A „jó kormányzás" két értelme avagy a demokratikus kormányzás programja és feltételei (Two Meanings of Good Governance, or Program and Conditions of Democratic Governance). Századvég Műhelytanulmányok 6. 2007. 2–33.; Gábor G. Fodor– István Stumpf: Neoweberi állam és jó kormányzás. Nemzeti Érdek, 2008. Ősz (7). 5–26.; Gergely Egedy: A kormányzás parancsa. (Command of Governance) Polgári Szemle, 2009/5.; János Frivaldszky: Jó kormányzás és helyes közpolitika-alkotás (Good Governance and Appropriate Public Policy Making) Jogelméleti Szemle, 2010/4..

5 See G. Fodor Gábor – Stumpf István: Neoweberi állam és jó kormányzás (Neoweberian state and good governance), Nemzeti érdek 2008 II. évf. 3.sz. Századvég kiadó, 2008. 5-26.

6 EU Commission Anti-corruption Report February 2014.

7 The Gallup World Poll surveys of satisfaction with local police, health care, jurisdiction, education and government, sample size of 1,000 people.

8 A wider public policy approach is often used: "public governance is the processes and relations of political, economic and social stakeholders, through which they affect public policy impacts." while "good governance is a discussion of all stakeholders about the developed public policy impacts and common governmental principles with regular assessments from the side of stakeholders." Tony Bovaird, Elke Löffler: Evaluating 316.

9 Classification of functions is grouped into four categories: (1) General public services include administration, external affairs, defence, public order and safety, and justice. (2) Welfare functions of the state are education, health care, social security, social protection services, housing and other services financed and supported by the state; (3) economic functions include government managed and supported economic activities and their development (i.e. energy supply, agriculture, transportation, communication). (4) The public debt management category includes interest expenses on government debt.

10 A közszféra és a gazdaság versenyképessége (Competitiveness of the Public Sector and Economy) (editor: G. Báger – E. Czakó) Állami Számvevszék tanulmány, 2010, Budapest, 20.

11 Kaufmann, Kraay and Mastruzzi: WB Report, 2010, p. 4

12 An example of joint governance of nations is the economic governance agenda implementing EU 2020 strategy. Accordingly, the budgetary, macro-economic and structural policies of member states are coordinated effectively to allow member states to take EU considerations into account at an early stage of their national budgetary processes and in other aspects of economic policymaking. Member States submit their plans for sound public finances (Stability or Convergence Programmes) and reforms and measures to make progress towards smart, sustainable and inclusive growth (National Reform Programmes). The Commission assesses these programmes and provides country-specific recommendations as appropriate. The Council formally adopts country-specific recommendations.

13 The Hungarian Government's concept of the Good State as a definition: "A state may be regarded as good if it serves the needs of individuals, communities and businesses in the interest of and within the boundaries of the common good, and in the best possible way. The State creates a lawful and equitable balance between a number of interests and needs, allowing the enforcement of claims and providing protection in this way. The State proceeds with due responsibility in the interest of the protection and preservation of the nation's natural and cultural heritage. The only self-interest of the State is that it should, under all circumstances, be able to effectively enforce the above two elements of the common good; in other words, the State should

create an effective rule of law, and therefore should ensure the functioning of its institutions, and honour and guarantee accountability for maintaining individual and collective rights." Zoltán Magyary Public Administration Development Program 2012, Ministry of Public Administration and Justice, Budapest.

14 Tony Bovaird, Elke Löffler: Evaluating 314. Different approaches to quality and evaluation of governance: meeting specification requirements (ISO 900); fit for purpose (Balance Scorecard I); relationship with inputs, proceedings, outputs and outcomes (EFQM, BSC II); meeting customer requirements.

15 Analysis and international models of state allocation, see in. József Sivák – Vigvári András: Rendhagyó bevezetés közpénzügyek tanulmányozásába, (An Unorthodox Introduction to the Study of Public Finances) Kluwer 2012, 90.

16 In Hungary, the extension of public management of service providing began in the field of public utility services, especially energy supply (gas, electricity, water, waste management), in 2012. This required an increase in public ownership in the public utilities market (public share in energy service companies). Regulation is another means of intervention leading the public utilities market in a non-profit direction since 2012. The motivation is basically to reduce household public utility (electricity, gas, water) prices (overhead costs), which are extremely high even in comparison with other European countries. This utility cost reducing governance in Hungary also proves that considering the task of government in ensuring level playing fields and market liberalization and gaining acceptance as the greatest common good does not correspond to economic and social reality.

17 There are several good solutions to public financing in service of the common good. Public-Private Partnerships (PPP) have appeared to be an effective solution to serve the common good for a long time, but shortcomings in the model made it a form of public financing that is not recommended in Hungary. Sharing of service-related costs between the state and beneficiary (i.e. higher education) and different public credit schemes provide good solutions to public financing. The common good is also very relative in public revenue policy. Burden sharing between the different actors in the supply chain, the different groups of society raise, brings up questions of fairness and equity. Similarly, there are many more alternatives to burden-sharing in taxation and public utility fees. There is not yet a categorically fair burden-sharing model in Europe, so the definition of the common good always appears in relative terms. Reduction in the tax burden of work-based income, appreciation of social elements (i.e. childbearing) and enforcement of burden sharing of the for-profit sector.

18 http://epp.eurostat.ec.europa.eu/portal/page/portal/statistics/search_database

19 http://epp.eurostat.ec.europa.eu/portal/page/portal/sdi/indicators

20 EU Justice scoreboard: http://ec.europa.eu/justice/effective-justice/scoreboard/index_en.htm

21 EU Anti-corruption report: http://ec.europa.eu/dgs/home-affairs/what-we-do/policies/organized-crime-and-human-trafficking/corruption/anti-corruption-report/index_en.htm

22 http://sustainabledevelopment.un.org/content/documents/guidelines.pdf

23 The Sanlon-Monash Index of social cohesion (Markus 2011) and the VALCOS index (Valeurs et Cohésion sociale) are other similar indices that create indices mainly with the help of some attitude questions.

24 This composite index, dealing with the preparatory work of legislation and the consultation process, derives from the of OECD's own survey (Regulatory Management Systems' Indicators Survey). Questionnaires were filled in by the governments in the OECD member states. The index shows, with the help of a scale ranging from 1 to 12.5, whether certain consultation mechanisms and regulations are present in a particular country.

25 http://www.oecd.org/els/societyataglance.htm

26 http://www.oecd.org/pisa/

27 The WGI database is available at www.govindicators.org or directly from the website of the World Bank (http://info.worldbank.org/governance/wgi/index.asp).

28 The complete set of working papers can be downloaded from the website or from the World Bank (http://info.worldbank.org/governance/wgi/resources.htm#reading).

29 C.f.. http://www.imd.org/wcc/.

30 http://www.worldjusticeproject.org/rule-of-law-index/

31 Corruption Perceptions Index 2012: Full Source Description. http://ti-israel.org/_Uploads/dbsAttachedFiles/JSourcedescriptionCPI2012.pdf

32 The competitiveness of the public sector and the economy (edited by: G. Báger – E. Czakó), State Audit office 2010, Budapest

33 In Hungary the non-profit transformation of the utility sector (utility bill reduction), helping troubled debtors with forex mortgages, public works programs, reduction in employment taxation and extension of profit taxes to highly profitable sectors, and the student loan scheme. Some of these measures have a positive social impact, although to traditional measurement systems these are either irrelevant or of negative value.

34 Stiglitz, Sen, & Fitoussi, Report 2009 in www.stiglitz-sen-fitoussi.fr

35 The leader of NUPS Good Governance Centre's external security-related research is Prof. Zoltán Szenes. Hungary's power index is 1.71148 and its ranking is 61. The world's most powerful army belongs to the US, with Russia second and China with the third most powerful armed forces. They are followed on the top ten strongest militaries list by India, Great Britain, France, Germany, Turkey, South-Korea and Japan.
Source: http://www.globalfirepower.com/ (Downloaded: 5 April 2014)

37 World Justice Index content: 1. Limited Government Powers 2. Corruption 3. Clear, Publicized and Stable Laws 4. Order and Security 5. Fundamental Rights 6. Open Government 7. Regulatory Enforcement 8. Access to Civil Justice 9. Effective Criminal Justice 10. Informal Justice

38 https://www.globalintegrity.org/downloads/

39 Péter Klotz leads the Good Governance Centre's transparency related-research.

40 https://index.okfn.org/about/

41 OECD (2009b, 2011c), UNICEF (2005, 2007, 2010).

42 The leader of the NUPS Good Governance Centre's community wellbeing related research is Prof. Gusztáv Báger.

43 Tony Bovaird, Elke Löffler: Evaluating 319. refers to the methodology of a "measurement of quality of life performance indicators" (QQL PIS)

44 Set of Indicators Measuring Social Progress by the Central Statistical Office here: http://www.ksh.hu/thm/1/indi1_1_2.html

45 http://www.ksh.hu/docs/hun/xftp/stattukor/hitelesekszocjell.pdf

46 http://www.ksh.hu/docs/hun/eurostat_tablak/tabl/tsdsc230.html

47 http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=ilc_mddd13&lang=en

48 http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=ilc_di11&lang=en

49 http://www.ksh.hu/docs/hun/eurostat_tablak/tabl/tps00099.html

50 http://www.ksh.hu/docs/hun/xstadat/xstadat_eves/i_fsp005.html

51 http://www.ksh.hu/docs/hun/eurostat_tablak/tabl/tsdde310.html

52 http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&language=en&pcode=tsdph100&plugin=1

53 OECD, http://www.oecd.org/pisa/keyfindings/pisa-2012-results.htm

54 http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&plugin=1&language=en&pcode=t2020_41

55 http://www.ksh.hu/docs/hun/eurostat_tablak/tabl/tsdsc510.html

56 OECD Better Life Index, http://stats.oecd.org/Index.aspx?DataSetCode=BLI

57 http://www.ksh.hu/docs/hun/xstadat/xstadat_eves/i_oni006.html

58 An annual, internationally coordinated survey on a large sample to obtain information on the social, income demographic, and housing conditions of the EU member states. The survey also collects information on employment, poverty and social exclusion.

59 Statisztikai Tükör, Central Statistical Office, 4 February 2014

60 The leader of the NUPS Good Governance Centre's economic competitiveness related research is Prof. Magdolna Csath.

61 For example, in Hungary, the central government budget is relatively balanced; in contrast, local governments are heavily indebted. (The Government transferred a major part of the debt to the central budget in 2012, which has not become imbalanced in 2013-2014 with this move.)

62 The leader of the Good Governance Centre's democracy-related research is Dr. Tamás Kaiser.

63 The Hungarian Government conducted three national survey consultations. Ministries also arranged consultation campaigns on"Simple State Strategy" and "Good Governance Strategy (on-line consultation), for example.

64 In international measurements, satisfaction and trust in good public administration is merged with trust in the government. Though the trust index for some public services (e.g. health, education and police), appears separately, public administration does not counta as a separate entity.

65 Some political powers in the European Parliament called the Hungarian government to account for the EU standards of the rule of law. The overview of the aspects of the dispute (not of a political nature) around the Tavares report adopted by the European Parliament in 2013 may serve as a good lesson in consideration of the European clash of values related to the standards of rule of law.
66 See article 2 of the Treaty on the European Union
67 Albert Venn Dicey: An Introduction to the Study of the Law of the Constitution, 1885
68 http://www.unrol.org/article.aspx?article_id=32
69 Aghast, M et al. (2013), WJP Rule of Law Index 2012-2013, Washington (http://www.worldjusticeproject.org/rule-of-law-index/)
70 Christopher Pollitt and Geert Bouckaert: Public Management Reform: A Comparative Analysis – New Public Management, Governance, and the Neo-Weberian State: Third Edition, Oxford University Press, 2011
71 See Polgári Szemle (Civic Review), Vol 10, 1-2, issues 6-39

CHAPTER TWO

Governance in Administrative Reforms: Hungary and the Current Trends in Europe*

"How can we make our public administration better?" This is the question governments tend to ask themselves when they face new challenges. To the great fortune of public administration theorists, such challenges emerge continually. One possible answer to the question is by reforming public administration in a pro-governance way. Since the precise content of "governance" appears to be slightly enigmatic, this chapter offers a brief account on the available definitions. In its sense of reforming public administration, governance usually means establishing a web of partnerships with various autonomous partners that have the potential to contribute to public efforts. In the event of successfully conducted reform, such autonomous units – which may include civic groups, associations, trade unions, pressure groups, etc. – can provide powerful support for the government, while at the same time fulfilling the criteria of being democratic, accountable, cost-effective and still being coordinated. What is the current situation in Hungary and in Europe? Do the harsh realities of the straitened economic conditions support or refute theory? How does a country decide on which model to follow as an example? Is it the case that loosely connected partners can smoothly and reliably unburden governments without conflict or misconduct? These are all interesting questions to analyze through the lens of contemporary public administration theory.

Introduction

"Governance" appears to be an extremely wide notion. It refers to what government does, without much regard to the government itself. In the narrower sense, it refers to a stream of public administration reforms all over the world, whereas cooperative networks of various autonomous organizations appear to be appropriate for addressing public matters.

At the beginning of this chapter, I introduce certain scientific views on the concept of governance. These views throw light on how theoretical approaches can differ from each other. After a few remarks on the cultural determination of governance, I call attention to how governance appeared as an internationally supported method of capacity-

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creation in countries where traditional state administration was non-existent or had shortages of organizational capacity. The Hungarian public administration development path has been rich in new emergences over the last four years. What is the consequence of such vast recent reforms from the perspective of governance? I attempt to approach this question from two sides: first, from the side of organizational architecture, which definitely does not appear to be governance-oriented. However, the other side is the regulatory side, and new legislation on transparency and participation does appear to provide a solid foundation for further governance-oriented development.

At the end of the chapter, I give a brief account on currently ongoing reforms in Europe based on the first interim research findings from LIPSE (www.lipse.org*). With this, I have a hidden pedagogical aim: I would like to demonstrate that public sector reforms are taking place always and everywhere.*

1. Defining Governance: What is "Governance" all about?

It appears that there is a bit of confusion about the concept of "governance". In fact, "governance has emerged as a word big enough to accommodate a host of concepts regarding the broadened universe of means to deliver public ends."[1] To begin with, "governance" refers to the way that public issues are addressed. (Koppell & Auer, 2010)

In order to follow this path, first a valid definition of "government" is needed. Such broad concepts are difficult to define. One possible definition of "government" is the following:

> "**Government**: The exercise of authority in the administration of the affairs of a state, community, or society. An instrument to preserve an ordered society. The authoritative direction and restraint exercised over the actions of men. In the United States, the federal and state governments operate under a written constitution from which their sovereignty and authority emanate." (Gifis, 2003 p. 225.)

Governance as an influential approach to public administration means that the social players and the market have achieved such a level of empowerment that they become capable of managing community, and moreover, societal matters. As such, the word "governance" has rich and multiple meanings; among other meanings, it is used to emphasize the dynamic nature of serving the public good, in contrast to static "government" based on bureaucratic structures. Governance embraces a way of arranging public matters as an alternative to hierarchies. Public administration theorists often define governance in such a way as to distinguish it from the concept of government. Stumpf and G. Fodor (2007) use the notion of "government" to throw light on their understanding of "governance".

Table No. 1. *Comparing the concepts of "good governance" and "good government" (Stumpf and G. Fodor, 2007).*

Governance	Government
Formal and informal elements are equally important. Apart from the institutions, behaviors, norm changes and new operational approaches are also important.	Governing is problem solving, performed by democratic governments.
Social self-regulation, cooperation between players replaces the formerly dominant state	Democratic reforms are instruments of problem solving (citizen's charters, pension reforms, workfare, welfare policy, social inclusion)
The role of the state is limited to ensuring the external conditions of good governance, but the state is no longer an exclusive or decisive player.	The role of the state is not limited to ensuring external conditions, but it has to take responsibility for handling public matters.
The role of the state is to promote the interaction between the public and private spheres.	The role of the state is to justly manage economic and social resources. In general terms, managing public matters in a non-partisan, equal manner, including welfare, social solidarity, equity, and cooperation.
The role of addressing public issues can be filled by horizontal, and not by vertical, institutional structures.	The government is sensitive, innovative, and anticipative. It is able to handle new public matters through a reflective and intelligent approach.
Governance is maintained by negotiation processes, not by instructions or by legally determined proceedings.	Government tends to give information unilaterally in advance or retrospectively due to freedom of information regulations.
There is a wide public realm that operates as a control mechanism. Different arguments in public debates are evaluated by justice, truth and intellectual value. Its origins are embedded in the theory of deliberative democracy.	The idea of the public good is manifested in the normative content of democracy: good governance in the original sense is not possible without an active, capable state.

Kooiman takes a different approach. He defines "governing" and "governance" as follows:

"**Governing** can be considered as the totality of interactions, in which public as well as private actors participate, aimed at solving societal problems or creating societal opportunities; attending to the institutions as contexts for these governing interactions; and establishing a normative foundation for all those activities.

Governance can be seen as the totality of theoretical conceptions on governing." (Kooiman, 2003, p. 4.)

Governance is used by theorists in the broad sense to characterize the actions of government or government in action. In the broad sense, governance "…includes the network of institutions and relationships through which citizens express their views, articulate their sectional interests, communicate with governments and try to ensure that their preferences are reflected in public policy." (Jenkins and Plowden, 2006, p. 8.) Furthermore, Jenkins and Plowden (2006) complete their wide definition with a list of the important elements of governance:

- The political as well as the administrative processes of a country.
- The relationships between politicians.
- The relationships between politicians and citizens.
- Civil services, Cabinets, local authorities, public corporations, legislatures, electoral systems: the institutions themselves and their operations.
- The whole range of voluntary and non-governmental organizations which can be labelled as "civil society".
- The issues of corruption and transparency. (Jenkins and Plowden, 2006, p. 8.)

Certain theorists furthermore suggest that the governance approach is an evolutionary step toward the traditional government approach. (Tiihonen, 2004) It might be the subject of an interesting scientific-philosophical debate as to whether the enhancement of governance as a phenomenon emerges as a spontaneous evolution that irremeably overwhelms traditional governments, or if it is more like an artifact. As such, one must ask the same question that Gyula Moór asked regarding Marxism: "What are we to do? Shall we promote the historical necessity? If it is an objective necessity, we can neither further it nor reject it. If it is not a necessity, then it is up to us whether we promote it or hinder it." (Moór, 1948, 1994, pp. 258–259)

In this study I present governance reforms as approaches that offer a variety of alternative solutions to pursuing the public interest based on deliberative cooperation and mutual commitments, assuming that such collaborations are controlled neither by state authority nor by market forces. Social players and civic institutions have always had an important role in certain policies, such as church participation in public health or social care. What factors have resulted in the unprecedented expansion of the role of social players in the polity? The change has been caused by the altered character of social players. Knowledge, access to IT support, and participation in social networks all enable social actors to claim a wider and more active role in public affairs. If public participation in social organizations is able to replace already decaying and hollowed-out state capacities (Peters, 1993), then conventional public administration can be further decreased. Otherwise, overly broad government competences would limit the potential activities of civil society. (Rhodes, 1994, pp. 138–151.) It appears to be a fact that national governments have tended to lose much of their ability to govern their countries on their own. The major components of this loss of governing ability arise from the following decisive factors:

- This development is partly connected to the issue of the international organizations and integrations (such as the United Nations or the European Union, etc.) that have the ambition to address public interests in cooperation with or – as appears to be the case with the EU from time to time – against the will of national governments.
- Governments tended to mandate private (for-profit) corporations with public functions. This kind of reallocation of (federal-, central-, state-, county- or municipal-) government activities is obvious in public lighting or road maintenance projects, which are mostly carried out by large corporations selected through public procurement. Other public activities are reallocated from government via PPP (public-private partnership agreement) or are contracted out. From the late 1980s until the mid 2000s, such efforts to reallocate public activities were quite common, primarily in the Anglo-Saxon world, but also in Continental Europe and in territories targeted by development programs of international financial and aid institutions. (Sobis – De Vries, 2008.)
- Governments tend to seek social partners (NGOs, churches, social movements, commercial chambers, trade unions, cooperatives, neighborhoods, etc.) as partners in addressing public issues. If public issues are solved by such formations – inclusively of the citizens themselves – then there is no further need, or at least less need, for government action, while such problem solving does not consume scarce public funds, and the process itself represents an act of participatory democracy. In the following section of this chapter, the details of this latter approach are discussed.

2. Roots of the culture of governance

Historically, the approach of traditional, hierarchical European states has tended toward effective central power that becomes gradually limited over time by legal (constitutional) frameworks. Local power having source of legitimacy in local elections is a local limitation of such central power. Naturally, countries differ significantly in terms of where this boundary between central and local power is; furthermore, the local-central power relationship is even more complicated in federal states such as Germany.

On the North American continent, central (the Crown) or federal power has traditionally been weak. Public issues tended to be resolved locally either based on volunteer participation or on local elections. Although American federal power has undergone steady development since the first decades of the 20th century, the culture of American public administration still relies a great deal on civic participation. In such a culture, citizens tend to be demanding and critical of hierarchies, and thus it is relatively easy to mobilize civic groups for public purposes. Some civic movements even have considerable pressure power – many of these are linked to vested market interests (like the legendary lobbying power of the National Rifle Association or the National Farmer Union. The naturally opposing approaches of the local and state or federal governments are called "The intellectual crisis of American public administration" by Vincent Ostrom. (Ostrom, 1989)

According to the representatives of the governance theory, governments should utilize the existing cooperation and information networks of the social partners (Sorensen and Torfing, 2007). Throughout the complicated negotiation processes, the government is represented by quasi-independent agencies that have no direct or final control on the deliberative processes or on the final decisions. Their role is limited to being a participant among the other entities. Even the public financing of such agencies can be tied indirectly to their performance as negotiators and cooperative policy partners: if the policies managed by them are not successful, their finances can be cut back (Rhodes, 1988). The governance method that incorporated such financial incentives for state authorities was originally developed for the cooperation between government agencies and local governments. Later it was transformed to general cooperation between government and all social partners. (Peters, 1998)

The central message of the governance approach is that network-based handling of public matters is more efficient and more democratic than using the classical, hierarchical, bureaucratic organizations. Governance-oriented reformists argue that governance has a systemic advantage in bringing consensus to the early phases of policy-making. Thus conflicts arising from the collisions between the different interests represented in the policy arena cannot be escalated too much, since conflict resolution in the governance process is a built-in feature. Governance literature takes it as axiomatic that governance is *per definitionem* more democratic than classical government systems. This argument is based on the assumption that self-organizing civil groups can keep government under permanent and direct control in terms of policy-making, while in the classical system, democratic representation offers only a rare and distant solution for democratic control over politics and public institutions.

In Scandinavian and Dutch public administration, the involvement of social partners in collective decision-making processes has a long and illustrious history; however, such deliberative mechanisms have also begun to spread in countries that do not have such an administrative cultural legacy. (Klijn and Koppenjaan, 2006) Addressing public matters by using cooperative techniques with social partners is well known in Hungary, with examples of such institutions found among professional chambers and public societies such as the Hungarian Academy of Sciences. State-society negotiations in such forms as corporatist arrangements have an extensive history in Europe, possessing major resources in terms of political influence. According to the European experience, such deliberative techniques did not replace, hollow out, or weaken the state, although they did not have the ambition of reforming national public administration (Katzenstein, 1984)

Opponents of governance from the very beginning raised their objections to the problem that addressing public issues through an opaque system of complicated negotiation processes across a web of various institutions does not lend itself to the transparency of clear responsibilities and regulated procedures that exist in classical, hierarchical institutions. It is also difficult to coordinate this diverse patchwork of various entities (Peters, 1998). It is also challenging to identify democratic gains through governance reforms in societies in which civic organizations are immature.

3. Promoting governance reforms abroad

The United Nations traditionally focuses on democratic rights and freedoms, in addition to fighting poverty. The idea of administrative capacity building arouse in the mid 1990s. The preference of the UN was for this policy change to improve the efficiency and accuracy of international aid distribution. The UN recognized that better local administrative capacity could often multiply the success rate of international aid. Furthermore, international development efforts do not then have to become bogged down by local problems that are effectively controlled by local administrations (UNDP, 2006). UNDP placed its imprimatur on in the effort to promote governance reforms between 1999 and 2007 through its widely known and acknowledged “Global Forum for Reinventing Government” conferences. The conferences formulated guidelines for the UN member states. The title of the conferences referred to the blueprint of the new public management framework: Osborne and Gaebler’s 1992 work, “Reinventing Government”. In spite of their title, however, the conferences gradually drifted away from managerialism and towards governance. This appeared to be the in the interest of the UN, because it contributed to its balanced approach of calling on its numerous members to cooperate more smoothly. Influential democracies like India promoted governance research and knowledge exchange, because they viewed governance as a promising alternative to managerialism when it came to finding a cost-effective and democratic way to modernize their public administration systems, while at the same time avoiding the hazardous route of making managerialist reforms. For these countries, and for the UN as an institution, governance methods and governance-inspired philosophy contained the potential for resolving conflicts, which is what appeared to be the main attraction for them.

Metagovernance can be defined as an attempt to describe the efforts of governments to maintain a certain level of control in the course of serving public interest through a web of governance processes and entities. It is a logical requirement of government to speed up deliberative processes and, to express it simply, “get things done”. Apart from these logical motives, national governments have responsibilities based on their democratic legitimacy. If they plan and implement their policies by means of bypassing scrutiny of the rule of law and avoiding the oversight of publicly elected bodies, or if public obligations are not fulfilled by entities under wide democratic control but instead by other entities that are controlled by ad hoc democratic arrangements, then it appears to be a logical question if one asks who it is exactly that is under the control of the citizens. It reflects a deep-seated need on the part of the wider public, and of the elected decision-makers as well, that metagovernance has become one of the logical responses from governments. In this sense, “metagovernance” means government efforts to orient, channel, and influence public policy processes carried out by social partners. According to Peters, metagovernance is an instrument for governments to restore their power. (Peters, 2008.) The main methods of metagovernance are the following: developing frameworks through regulations and institutions, determining public purposes, facilitation, contribution, encouragement, and participation. It is also useful to set and to carry out priorities. This takes considerable strategic capacity from the government. It is effective to use performance management instruments such as tying incentives to certain performance aims. Government communication can also enhance the possibility that certain social partners will be successful and enjoy trust from the wider public, while others might be discouraged due to low performance. The term "metagovernance" is commonly used to describe how EU institutions carry out their agendas. These individual techniques and the entire approach as a whole both enable the EU to steer nation states without violating their sovereignty.

Social interconnectedness through communication networks poses new challenges to contemporary states. Governance – as a principle – is no longer expressed in hierarchic relations, but rather through a soft steering of small autonomies. For the most part, this is a means of regulation and a method of communication that utilizes such relatively newly developed interdisciplinary fields of science as economic analysis of law. Soft steering of autonomies is the *differentia specifica* of metagovernance, as well – although on a higher level. Governance as a widespread phenomenon threatens the conventional techniques of exercising power of liberal democracies, but does not threaten representative democracy in general.

Liberal democracies – as stated by Woodrow Wilson – exist as a dual regime: while democratic legitimacy stems from the public will through representation, administration as an executive power ought to be effective and efficient by using modest public funding. These broad characteristics of public administration are brought about by professional and hierarchical bureaucratic organizations. Such institutions ensure organizational rationality, professionalism, dedication, logical clarity, precision, unity, and minimal internal frictions. Such hierarchical institutions, however, appeared to be in contradiction with the logic of democracy logic, and therefore – according to Wilson – hierarchical bureaucracy had to become subordinate to Congress. (Ostrom, 1989, pp. 21–28.)

It is a common occurrence to mention the EU as an important example of metagovernance. Since the EU does not have the direct authority to influence the internal matters of the member states, it has to rely on indirect but still relatively effective techniques. The EU relies on the following indirect techniques to channel the activities of 28 member states: consultative techniques, priority setting, financing if the priorities are met, restriction of finances as a sanction, developing and maintaining a case law-oriented meta-law that is above national legal systems, setting performance and quality standards for internal procedures, and controlling internal processes that affect the spending of EU funds. The critical question in terms of controlling autonomous social groups or sovereign states is basically the same: when does the aggregate of lesser, soft influences cross the line into undisputed control, if not management. In theory, the soft steering techniques do not impose decisive influence on the affected entities, and thus they are appropriate for keeping the "flock" more or less together. To a certain extent, euroscepticism exists in all member states. The main message of these political movements can be traced back to this central issue of governance and metagovernance. Local political elites tend to be divided on whether to urge for more integration and influence or the opposite. The positions of the member states as to whether they are in need of more or less steering can largely be traced back to their internal matters. A country with significant internal resources (material or immaterial) will not rely on EU funding too much. This does not mean that it is the resource position that exclusively determines member states' decisions regarding the EU, but it undoubtedly has an influence on how a given member state develops its own strategy. This can be seen vividly in the example of Greece, which de facto has no say in its own relations with the EU.

The EU analogue works well as an example by throwing light on how governance systems operate at the national level. Despite the obvious differences, the operating method is similar at the national and at the EU level.

4. The case for Hungary

The Hungarian experience with recent developments in public administration reforms offers a timely and vivid comparison between the government and governance approaches. The set of Hungarian reforms dubbed the "Magyary Programme" are a clear, and furthermore, somewhat extreme example of centralization. Centralization is the manner in which "government" is enhanced. It is worth paying attention briefly to the development path of the last two decades and to shed light on the efficiency and democratic aspects of the central "government" model compared to the distributed "governance" model.

For a long time, Hungary has been known as the "preeminent student" of Western-style democracy and capitalism in the post-communist bloc. Democratic transition was marked by enormous development in the rule of law (e. g. Sólyom 2003), public institutional development (Neshkova and Konstandinova 2012. p. 326.), rapid economic liberalization (Kornai 2006), as well as the momentous and profound democratization of the entire society (Haerpfer 2006). With the perspective of the more than two decades that have passed since the regime change, the trends in the Western model societies during the same historic period in appear to also be a decisive factor in the long-term characteristics of local transitions. The exceptionally long, steady growth period and dynamics of the "roaring nineties" (Stiglitz 2003) used to provide a supportive external atmosphere for transitional reforms in the state institutions. On the other hand, however, this period veiled the substantial issues of whether the models taken as guidelines for the transition were truly the optimal one for the long run.[2] Transition countries – including Hungary – were not prepared for any of the systemic problems of the Western model. Nevertheless, times changed, and when the economic crisis erupted in 2008, Hungary found itself in a situation in which the internal challenges of the still ongoing transition and the sudden and enormous external challenges merged and created a truly "wicked" (Ferlie, Fitzgerald, McGivern, Dopson and Bennett 2011), multi-faceted crisis.

The Government that stepped into power in 2010 had a two-thirds majority in Parliament. Even with such unprecedented support, it had to face the economic crisis while dealing with the systemic controversies of the transitional period. As part of this double effort, the Government launched a vast reform agenda for the entire public administration system. In general terms, the reform can be summarized as the centralization of institutions (fewer ministries), centralization of competencies from municipal (local government) level to territorially distributed central public administration organs. The efficiency challenge of the centralized model is that it does not rely on local capacities (municipal local governments and/or civic participation) that are generally able to handle locally emerging public issues with local resources. Public institutions with sufficient empowerment – provided that they are plugged in to local information networks and are driven by local loyalties and dedication to the given municipality – have access to local resources that would not necessary be considered financial resources. The advantage of local institutions depends on the amount of information that they have. Local democracies – even if municipal administrations are not very effective in the operational sense – also have a "built-in" information feedback mechanism. Local resources can be the following: local companies, local cooperations, joint efforts, spontaneous local solutions for public matters, and volunteer contributions. It is also important to mention the local client feedback that is not necessarily channeled formally. Social connections work as avenues for feedback to local decision-makers irrespective of how receptive the local decision-makers are to criticism. Although centralized institutions might have a beneficial effect on the operation of public institutions, this is at the cost of the feedback of control information. Such information is vital for constantly improving, refining, and correcting the system. Thus, local democratic techniques work as informational and network generators while generating legitimacy at the same time.

Hungary is an EU member state that has continuously been under excessive deficit procedure since its accession in 2004. Due to its fiscal difficulties, Hungary signed a standby agreement with the IMF in November 2008. These are the primary circumstances that handcuffed Hungarian public administration reforms. Given a medium-size, unitary European country with strong Rechsstaat traditions, what are the available model solutions that offer both fiscal gains and a generally crisis-proof way of maintaining the entire public sector? What factors should reformers apply in choosing a particular development path? What are the pros and cons of choosing governance or something else as a reform model?

Model No. 1. New Public Management recipe

In 2006, vast NPM reforms were taking place in Hungary: outsourcing and PPPs were viewed as panaceas for austerity and increases in efficiency. A long chain of PPP university campus building/operating projects, PPP motorway projects, privatized public health laboratories, PPP prisons, to mention a few, were launched within a few years. The peak of the NPM wave was when the government decided to privatize the public health care sector. This initiative was shot down when a referendum halted the process in 2008. Theoretically (for the sake of argument), the pro-NPM path could still be further developed. Under pure economic logic, NPM must be more expensive than hierarchical management under the circumstances of the economic crisis. Hungarian ten-year bonds are sold at interest rate of 8-9%. In the event of partial government insolvency, the likelihood of not paying for PPPs is higher than not paying for bonds, and thus the price of PPP financing must be higher than distributive financing. (In fact, knowing the rates on the Hungarian credit market, such projects might be financed in Hungarian Forints at interest rates of around 14%, while Forint bonds are issued at 8%.)

Under the conditions of the crisis, the core NPM recipe would not work in Hungary, since it's financing costs significantly exceed the costs of government financing.

Model No. 2. Governance Model recipe

In the case of a mature civil society, certain public sector functions can be delegated to social partners. It might come with a certain efficiency advantage to increase the proportion of various actors in governance as a joint activity mix. As Éva Kuti has pointed out, the Hungarian civil sector is far from developed, and it largely depends on state financing. (Kuti 2011) Although there are viable examples of cooperation (especially in social policy and in public education), predominant state financing of the civil sector precludes any significant efficiency increases in the public sector. Apart from the financing difficulties, the governance model requires additional control and coordination efforts from the central government.

Under the conditions of the economic crisis, the governance model can contribute hardly anything at all to successful adaptation.

Model No. 3. Delegation of Competencies

Delegation and centralization of competencies are traditional organizational techniques of public administration reform. The issue of delegation and decentralization is widely considered in public administration to be a resource efficiency. The rationale of increasing efficiency by delegation has basically two roots. First, it stems from the idea of less political control by involving a higher level of professionalism (and thus higher performance). Secondly, delegation is supported by principal-agent theory, whereby the separation of control and operations is the source of higher performance and efficiency.

In public administration theory, there have been well-established arguments against over-delegation as a problematic phenomenon affecting administrative efficiency. According to Richard C. Box, principal-agent theory is a myth (Box 2004 pp. 601–602). Fukuyama argues that delegation raises the issue of control and coordination, since the agents tend to have their own priorities, which are different from what the principals might have in mind.˙(Fukuyama 2004 p. 190)

In the case of Hungary, the practical potential to seek efficiency via more delegation was very limited. Delegation to local governments could not be a viable development path, since the extremely complex system of 3,200 local governments was not at all efficient. Apart from their structural and procedural difficulties, local governments face serious financial burdens, as well, due to their extensive Swiss Franc and Euro indebtedness, which is to be treated in detail later. The gross debt of Hungarian local governments increased from 1.9% of GDP in 2005 to 4.1% of GDP in 2009 (Vigvári, 2011). This was a warning to the Ministry of Finance and to foreign financiers as well that this system is financially unsustainable.

Delegation to agencies might also provide a rational contribution to efficiency, but the Hungarian public administrative development path appeared to be relatively consistent in seeking economies of scale instead of seeking better division of labor. This will be treated in detail later in this article.

Model No. 4. Centralization and Concentration of Competencies

The terms "centralization" and "concentration" are differentiated here according to their area of effect (this differentiation is common in the Hungarian PA research community). Centralization means re-locating responsibilities from the local governments to the central government. The term concentration is used as merging government organs within the central government.

Under the conditions of the economic crisis, centralization and concentration might have special (crisis-specific) advantages, despite their unquestionable risks of contributing to citizen-unfriendly, rigid, and inefficient bureaucracies.

5. General limitations of governance reforms in Central and Eastern Europe

In the case of a mature civil society, certain public sector functions can be delegated to social partners. It might come with a certain efficiency advantage to increase the proportion of various actors in governance as a joint activity mix. As Éva Kuti has pointed out, the Hungarian civil sector is far from developed, and it largely depends on state financing. (Kuti 2011) Although there are viable examples of cooperation (especially in social policy and in public education), predominant state financing of the civil sector precludes any significant efficiency increases in the public sector. Apart from the financing difficulties, the governance model requires additional control and coordination efforts from the central government.

Under the conditions of the economic crisis, the governance model can contribute hardly anything at all to successful adaptation.

Due to the circumstances of the economic crisis, a new requirement of public administration has risen to the surface: How can the flexibility and anticipatory capability of public administration be increased, and how can public administration (and its achievements) gain higher acceptance in society? Under the circumstances of the crisis, the network-oriented public policy approach of the governance model appeared to become more attractive. According to Ferlie et al., workable governance models require civil organizations that understand the necessity of adaptating to the circumstances of the crisis as well as to the needs of the public administration. If they are able to fill the gap between social reality and public administration, they can significantly contribute to solving the "wicked problems" of public policy by benefiting from their network structure. (Ferlie et al. 2011)

5.1 Transparency as a precondition of governance

Transparency is an invaluable element and precondition to any governance reforms. This is easy to comprehend: if the citizen knows more, he can do more.

Prior to the regime change, the framework by which information was classified as public or non-public was the direct opposite of what is now meant by transparency. Before the regime change, every piece of information could become secret even without its classified status being declared. The issue of transparency has proved to be a fundamental element of democratization in the early 1990s. The law on data protection, issued in 1992, contained rigorous provisions on the transparency and accessibility of public purpose information. Certain categories of data were defined by the law, including personal data (any data related to a given person) and special personal data (personal data regarding health, religion, ethnicity etc.). The rigor of the applicable regulations matched this categorization. In terms of public sector information, the law declared that any public sector information is public unless it is classified. This regulatory approach contained a revolutionary change compared to the era of the communist regime, when non-transparency was the general rule and transparency was the exception. Although the threat was not taken very seriously, in the 1980s, anybody who handed over any information to a foreigner would theoretically have been committing espionage if the information was later classified as a threat to national security, even though this threat was not described or categorized by law in any way. Not even the process or the authority was specified with respect to who had the competence of proving that such a criminal act had been carried out. Thus, in theory, informing a tourist about public phone numbers or public transport timetables could easily fulfill the criteria. Such regulatory techniques, later termed "open norm", meant that anybody and everybody could be a potential criminal – it was only a matter of a decision for anyone to be charged. During the first years of the democratic regime, it was a primary strategic aim of regulatory change to close such "open norms" via strengthening the position of the citizens in two ways: restricting the legal conditions for classifying public information and enhancing citizens' position with regard to claiming the transparency of public information.

In the course of the regulatory "big bang" of the regime change, changing established attitudes proved to be an even bigger challenge. In the first half of the 1990s, illegally conducted classification practices aroused public attention. In order to minimize these abuses of classification, the first regulatory step, taken in 1995, was to further restrict classification practices by law. The new law (Act No. XXIX. 1995) enumerated the thematic cases when classification was to be conducted. It also re-regulated the procedure of classification in a very strict and complicated fashion. The result was that the previous attitude – inherited from the past – according to which anything that could possibly be classified was classified, mostly disappeared, but the original attitudes survived alongside the reformed practices. The bulk of the practical problems with transparency rules emerged in relation to neither public nor classified data, but instead were caused by the "grey zone" of public information that was neither published nor classified. As a side-effect of complicated rules of classification, de-classification also became very complicated and, therefore, an extreme rarity.

According to the original concept, data protection and the accessibility of public sector information were imagined to be two sides of the same coin. In reality, however, data protection has been proven to have been the dominant of the two during the first period, both in legal theory and in legislation. In connection with this, the principle of transparency received institutional support when the office of Ombudsman of Data Protection was established (as a deputy of the general Ombudsman). In the mid-1990s, it was impossible to know what real weight the Ombudsman – as an institution for protecting human rights – would have. Later on it proved to be successful in transparency (and especially data protection) cases. Having such an entity proved to be an effective institution, and transparency cases served the institutional interests of the Ombudsman as a legal institution, by creating substantial public respect for it.

By the time the regulatory "big bang" took place after the first years of the 1990s, there was a relatively long period, from 1995 to 2002, when the new democratic system settled on no further systemic changes. The wider public and stakeholders gradually adapted to the specific circumstances of the time.

5.2 Regulations on Transparency and Participation (2003–2010)

The new wave of regulation took place in the first years of the 2000s mostly in connection with the development of information technology. IT-driven regulatory change with respect to transparency is well known in PA theory (Jaeger & Bertot 2010). The development of the regulatory background – at the end of the first decade after the regime change – yielded important laws that granted citizens and civic organizations the right to claim public information in court. The opportunity to file cases based on the acts on data protection and on public information also became a political tool for the parties (both locally and at the national level), since public debates on unveiling "secrets" tend to be quite useful for capturing public attention. This kind of political activity unintentionally increased public awareness of the importance of transparency in the realm of public discussions. In parallel with the political sphere, public administration had to cope with new administrative challenges regarding transparency. Typical public administrative tasks around the year 2000 included displaying basic data on the given public administrative organ on the web. Such basic data contained tasks defined by law, names and short biographies of managers, official contacts, relevant regulations, administrative processes, etc. This stage of development was part of the static phase of e-government. The first phase of transparency development is similar to the era of the first period of the Freedom of Information Act in the US: agencies publishing "basic information about themselves" (Frost 2003, p. 90.) This regulatory period can be described with an oxymoron: dynamic legislation with static information. The Hungarian "Glass Pocket" Act (2003) provided basic information on Ministry contracts. In the meantime, a new act on public procurement was also issued that underlined the importance of transparency fairly well. (Tátrai & Nyikos 2013, p. 31) The Act on Freedom of Electronic Information (2005) stipulated free electronic access to preparatory materials for legislation and information on the given government organ, including structure, competencies, processes, and agency management. The Act also regulated the accessibility of court decisions.

The Act on Classified Information was changed in 2009. The Act eased up the procedural intricacy of ordering classification, but the same difficulties with declassification could still occur as under the previous law. The new act specified the re-classification of affected files every 5 years. This can be considered a substantial achievement from the perspective of transparency perspective, although obviously there is no public control over any such operations.

5.3 Transparency as a precondition of governance in recent reforms

By 2010, transparency regulations further developed and exceeded the barriers of static transparency towards a more dynamic approach that can be labeled as participation *and* transparency. Article XXVI. of the Fundamental Law of 2010 includes transparency as one of the aims of the development of state administration. The Act regarding civic participation in the administrative phase of legislative preparatory processes was issued in 2010.[3] This Act rules that the preparatory versions and the justifications of all Ministerial Decrees, Government Decrees, and Acts was to be published electronically and shall be put through an open consultation process. Established social partners like pressure groups, civil groups active in the given field or trade unions were to be directly addressed by the administration to participate in the process. The Act on the Legislative Process[4] details the publishing of laws and regulations, including their justification. The preparatory process of all legal materials is to contain a regulatory impact assessment regarding – among others – the social impact. In 2011, the data protection and the access to public data were re-regulated in an act[5] that attempts to adapt to the new circumstances of the external reality of IT the revolution (e.g. containing regulations on data handling by non-residents).

The Hungarian government – which came into power in 2010 – achieved a two-thirds majority in Parliament. This overwhelming political support is not necessarily beneficial to political motivation to further the development of transparency. Transparency regulations are effective promoters of legitimacy (De Fine Licht et al. 2014), and therefore if a political establishment is not motivated to further increase its legitimacy, transparency might become secondary. In the current case, the exceptional times of weathering the storm of the financial and economic crisis have overwritten this rule, since the series of unconventional measures taken by the government in order to control the crisis have required an enhanced communications campaign towards the public – partly by means of transparency reforms.

With its unprecedented support, the government has had to face the economic crisis while dealing with the systemic controversies of the transitional period. As part of this double effort, the Government launched a vast reform agenda for the entire public administration system. The most spectacular part of this was the wave of structural changes that include both centralization and simplification of structures. The decisive step of the reform has been the "re-centralization"[6] of competencies from local government offices. It should also be mentioned that the work capacities of local government offices were divided between original local-government competencies and delegated competencies. The re-concentration affects the delegated competencies that would be concentrated in the newly established district administrations (townships). Townships are the local branches of the County Government Offices and are responsible for all public administrative issues that used to be delegated to the local governments. This has a great affect on the administrative role of local governments, since approximately 75% of their case load consisted of delegated public administrative cases.

Centralization has a triple effect on transparency: If competencies are centralized, there is less of a chance that the citizen will get lost when searching for public information. On the other hand, the public administrative organ targeted by a claim for information has less of an opportunity to refer the case to another organ with the excuse of lack of competence. Furthermore, information can be expected to be more detailed, cross-checked, and delivered in a more client-friendly format in more centralized institutions.

The high regulatory status of administrative transparency (part of the Fundamental Law) might serve as a remedy for an inherited general weakness of Hungarian Central Public Administration, which is the weakness of strategic planning and strategic coordination. (OECD 2008 p. 206) This largely stems from the weakness of internal transparency and is primarily an internal capacity issue that has a major impact on policy planning and implementation. Secondarily, however, it is also an external transparency issue: whatever public administration cannot serve the citizens' needs for information when it does not have the relevant information. On the other hand, the external demand for public information might have a stimulating effect on the machinery of public administration by forcing it to acquire the missing information through internal innovations and better horizontal integration. The beneficial potentials of transparency becoming a fundamental component are exploited by the "Good State" concept (introduced in 2011), which is at the center of the ongoing administrative reform agenda. In this conception, transparency is the capstone of a state whose most challenging task is harmonizing competing ambitions and interests. According to this concept, transparency guarantees the "Good State" by ensuring that no particular interest can avoid democratic control in policy-making.

6. Independent agencies as governance partners

Governance-inspired reforms are usually built on the relative weight of independent authorities or agencies. The term of agency and "agencification" is very important in contemporary Western literature. Agencification refers to a reform model according to which the aim of the reformers is to break down hierarchies and grant relative autonomy to agencies in order to utilize their increased potential for partnership and innovation.

Independent or quasi-independent public administrative bodies are not typical in Hungarian public administration. Hajnal uses the term "agency" as an internationally accepted, broad term that he defines precisely and according to the needs of his study (Hajnal 2011, p. 7). In the legal sense, Hungary has altogether four government agencies. These are defined by the Act. No. XLIII. 2010. (1. §) as autonomous government agencies: the Public Procurement Authority, the Competition Authority, the Authority on Equal Opportunity, and the Data Protection and Freedom of Information Authority. Administrative organizations that are subordinated to Parliament (not to the Government) constitute a separate legal category. These are the Media Authority and the Financial Supervisory Authority. The latter merged with the Central Bank in October, 2013. It can be seen that the most important institutions for promoting transparency are either autonomous government agencies (Data Protection and Freedom of Information Authority) or independent agencies subordinated to Parliament. Both the Media Authority and the Financial Supervisory Authority are vital stakeholders in any transparency policy. The latter two have the competence to issue regulations that further enhance their autonomy and influence. (Rubinstein Reiss 2010, p. 373.)

The Public Procurement Authority has a decisive role with respect to the transparency of public procurements. This role is enhanced by the new Act on Public Procurements (2011). "In order to ensure the public character of public procurement procedures, a contracting authority is required to publish notices, guidelines, the full content of the contracts, and information regarding their completion and legal remedies." (Tátrai & Nyikos 2013, p. 36) The Public Procurement Authority primary function is to have strict oversight over these activities, but it can also provide active assistance by publishing necessary information on its own website if, for example, a contracting authority does not have a homepage.

As mentioned above, independent or quasi-independent public administrative bodies are not typical in the Hungarian public administration. Hajnal uses the term "agency" as an internationally accepted, broad term that he defines precisely and according to the needs of his study (Hajnal 2011, p. 7). If we define "agencies" as holders of a certain level of independence, we find few organizations that can be categorized as such:

- Hungarian branches of international or EU institutions (such as the Hungarian branch of the International Atomic Energy Agency, or the National Development Agency that is in charge of allocating EU funds domestically: these are integrated into the domestic PA system legally, but they have a high level of de facto independence).

- Background institutions of Ministries without an administrative role – these are typically project management or consultative institutions.
- In the legal sense, Hungary has altogether four agencies. These are defined by the Act No. XLIII. 2010. (1. §) as autonomous government organs: the Public Procurement Authority, the Competition Authority, the Authority on Equal Opportunity, and the Data Protection and Freedom of Information Authority.
- Administrative organizations subordinate to the Parliament (not to the Government): the Media Authority and the Financial Supervisory Authority.

These agencies have been untouched by the current public administrative reforms; however, further agencification is not favored by the recent reforms. The current concept of a simpler state requires an agency system with clearly separated competencies and a strict limitation on the number of public administrative entities.

7. The European example: how did the crisis influence European public administration with respect to governance reforms?

Making governance reforms usually appears to be an obvious choice when government capacity-building is required but there are no fiscal resources to enhance government capacities through conventional capacity building in hierarchical organizations. In such cases – which are numerous in times of financial and economic crises – enhancing public services so that they are done by social partners free of charge or for symbolic compensation might have several benefits. First of all, it appears that the costs of extra capacities can mostly be shifted to the volunteer contributors – at least the costs of the extra working hours. Secondly, such steps are capable of increasing civic enthusiasm and thus civic participation in further projects. If civic groups see that the government (either local, territorial or central/federal) is receptive to their contributions, it might have a beneficial impact on civil society in general: more citizen participation would result in higher state-citizen cooperation and can lead to an overall higher level of legitimacy and stability. However, the overall picture is somewhat different. First of all, every instance of civic groups being involved in public services requires a certain coordinating capacity that has its own costs. Secondly, in certain areas, it is unavoidable to have a certain level of control over civic movements – however strange this may sound initially. From time to time, major or minor scandals erupt that cast a shadow over government-civil participation. Usually the misconduct stems from one of two sources. Either the given civil movement is a representative of individual or market interests using the civil aspect as a disguise for their operations, or they are not at all democratic themselves: they are simply using democratic participation as a disguise for expanding their non-democratic operations. With regard to the former, it is easy to find examples from the recent past: a private foundation purportedly engaged in treating childhood cancer turned out to be a vehicle for spending donations for the director's own ends, with no regards to its original mission whatsoever. Another example is when a citizen patrol organization in Budapest turned out to be merely a public arm of an organized crime group. With respect to the latter, there are fewer obvious examples, but there are definitely some. To mention one example: a few years ago a school not far from Győr turned out, without the knowledge of the parents or the pupils, to be operated by a globally active and harmful cult.

What is the main lesson that countries had to learn from the economic crisis that started in 2008? It is that public functions have to be maintained from fewer resources, and later on from even fewer resources. The decline of available resources appears to be the main experience that determines the behavior of decision-makers in terms of public sector reforms. The LIPSE project (www.lipse.org) is a major FP7 project of 12 leading European universities to empirically study such reforms.[7]

The head of the project, Professor Geert Bouckaert, released an interim evaluation of its findings so far at the TED7 (Trans-European Dialogue 7) Conference in Cluj-Napoca (Kolozsvár), Romania, 2014, February. The basic finding of the research is that decentralization is the dominant trend in Europe and is being carried out with local governance innovations. The reform approach in the OECD is currently even strengthening. The decisive impetus is the economic situation. If the number of decentralized competencies exceeds the number of decentralized resources, then this results in central budget savings. Such savings are feasible if entities targeted by competency-transfer (local governments or civil organizations) have certain hidden resources that otherwise would remain concealed. This resource is the trust of the citizens in municipal leaders and in civic groups. With the enhancement of municipal administrations, the municipalities also get a chance to decide on transferring competencies from the municipal local governments to social groups or to private companies. Municipalities tend to build partnerships with private companies (based on long-term contracts) and with social partners. Such governance is built more on networks than on hierarchical relations.

Apart from re-locating competencies, local governments tend to make efforts to increase their internal operational efficiency by installing quality management instruments like CAF, ISO these are not disputed publicly, although their beneficial effect on efficiency has not yet been proven. Such instruments provide a sense of proficiency, and thus they can function as sources of legitimacy. It appears to be logical that when the focus of the reform is on cooperation with wider social networks, it is difficult to channel this into well-defined internal procedures. On the other hand, it is also possible that too much focus on internal operational management, including quality management, might narrow the scope of utilizing civic contributions. Citizen participation in public issues is not to be confused with client management, in which a sort of contribution must be collected from the citizens as clients: their client satisfaction data. This part of citizen contribution can be channeled and utilized by quality management, but governance-type citizen participation is different: it is either capacity granting or participation in the policy-making process.

Innovation appears to be the silver bullet for fiscal challenges faced by national public administration. The basic conflict between the need for increased capacities and limited or shrinking resources is well known. National public administrations have to handle issues of societies that need more public services in terms of both content and quantity. The need for more stems partly from the economic crisis, but also from long-term social crises like aging population, migration, climate change, etc.

Innovation can typically rely on technology or on new players or on a new kind of cooperation between old and (or) new players. In which area of public administration do the most innovations appear? Are there governance-type innovations among them? This is hard to evaluate precisely, since most innovations are probably not considered to be "innovations" by most public managers. The LIPSE project contained some qualitative research on innovations that were prepared as case studies for the European Public Sector Award (EPSA). Based on the data set provided by the EPSA case studies, most innovations appear in public health management and in social services. The innovations are mostly collaborations, partnerships and e-government projects.

On a given technological level, the level of internal efficiency is limited thus innovation is the new slogan for finding creative ways of bypassing this kind of barrier. Such innovations are not created in abstracto, but are constantly emerging in practice, on the local level. Innovations – even successful ones – at the local level cannot have a wider impact unless they are systematically collected, researched, evaluated and transformed to be used in other circumstances. The need for this kind of innovation management provides the reason for whyvarious innovation awards are becoming so popular. From these findings, it can be seen that internal operations still have some potential for further improvement in areas where there is a substantial technological backlog. Further developments – when technological barriers are reached – are difficult to achieve. Even technology-driven innovation has fiscal barriers and relatively high project risks. For national public administrations (central or local) it might be difficult, if not impossible, to cover the expenses of a technological investment. Governance reforms, on the other hand, are typically not technology-driven. Naturally, they can be, and mostly are, technology-assisted, but they are not entirely technology driven.

On a given level of willingness of social partners to cooperate, switching in new players and launching new kinds of cooperation appear to be also limited but this limitation is flexible. This flexibility is targeted by the new wave of reforms that seek additional organizational and financing resources for public matters in order to relocate certain public tasks from public administration to the public itself.

As a summary of the ongoing reforms in Europe one can state that they are public organization reactions to the economic crisis. Insufficient time has passed yet to evaluate whether this new wave of reforms can be considered successful or not. Local public administrations have to face their own inherited challenges such as legal difficulties, lack of human competence, corruption, lack of political support, lack of openness. Governance reforms and governance elements however, might be utilized to increase public involvement and openness to the public. Transparency, accountability and local trust are vital elements of such reforms.

Conclusion

The term "governance" puts the emphasis on what the government, public administration and all organs, bodies or entities in charge of public matters do. It highlights the activity instead of the structure itself. If activities and achievements are put to the first place, it is logical to conclude that the legal status of the entity that actually undertakes the given activity becomes secondary. The (good) governance logic opens up the monopoly of acting for public purposes from traditionally organized hierarchic public administration to a loose network of civic cooperation. This sounds promising for many reformers. However, governance reforms require certain preconditions. Transparency first of all, secondly the mutual will for participation from the side of the public sector and from the social partners as well. Governance raises the question of governability in terms of coordination and control. Public administrations tend to face the dilemma whether they value governance gains (such as external organizational capacity and additional legitimacy through direct participation) more or they prefer higher control in order to be able to react swiftly to changing circumstances if needed.

The traditional interpretation of delegation means that public tasks are delegated from the higher level to the lower level within a hierarchic system. Recently delegation can also be interpreted as delegating social partners who are external to the body of public administration. Due to recent research findings, it can be stated that in practice it is not "A" or "B" reform that national public administrations are interested in. Instead, they tend to seek overall efficiency gains through innovations. In practice, useable public innovations are most likely to appear "on the spot", when delegated competences, wide participation, empowerment and a real motivation meet at serving the public.

Questions

1. Please clarify what "governance" and "good governance" represent in public administration theory.
2. Please describe the development path of Hungarian public administration in terms of delegation.
3. What is the relationship between governance and transparency?
4. What elements, risks and dilemmas do reformers have to take into consideration when planning governance reforms?
5. How would you describe the European trend of public administration reforms after 2008?
6. What is the relationship between the recent Hungarian and the European trend of public administration reforms generally and with special regards to governance?

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Endnotes

1 Koppell, J. G. S. and Auer, J. C.: Is There a Spirit of Governance? (2012) Public Administration Review 72 (S1) pp. 524-533

2 Orenstein argues that the opposite was true. (Orenstein 2009)

3 Act No. CXXXI. 2010. Act on Social Participation in Legislative Preparatory Procedures

4 Act No. CXXX. 2010. Act on the Legislative Process

5 Act No. CXII. 2011. Act on Information Autonomy and on Freedom of Information

6 The expression refers to the two distinguished categories of local governmental competencies in Hungarian legal theory: „original" competencies and „delegated" competencies. In this categorization the reverse process of delegation is „recentralization".

7 Project leader: Catholic University, Leuven (Belgium). Project partners: Erasmus University, Rotterdam (The Netherlands); Radboud Universiteit Nijmegen Nijmegen, (The Netherlands); Ecole Nationale d'Administration Paris (France); Fundacion Esade Barcelona (Spain); University of Edinburgh Edinburgh (United Kingdom); Universita Commerciale Luigi Boccini Milan (Italy); Roskilde Universitet Roskilde (Denmark); Hertie School of Governance GGMBH Hertie (Germany); Matej Bel University Banska Bystrica (Slovakia); National School of Political Studies and Public Administration Bucharest (Romania); Tallinn University of Technology Tallinn, Estonia.

CHAPTER THREE

Overviewing Multi-level Governance: a Territorial Dimension*

Over the last decades, which have been characterized by a "thirst" for improved public administration, various and complex patterns of interdependency between actors, institutions, functional activities and territorial organizations have emerged under the "umbrella term" of governance, which plays a central role in explaining and conceptualizing these changing relationships. Multi-level Governance (MLG), as a concept, is well-described in the literature of politics and public policy. The principal value of the concept is that it allows for an understanding of complexity both at and between individual levels. In this sense, the vertical concept of MLG, which includes levels both "below" and "above" the nation state, parallels the horizontal concept of complex governance, which includes new forms of cooperation between state and non-state actors. It should be noted here that in spite of the increasing degree of regional mobilization, there is a wide variety in the scale and degree of political and social institutionalization across the various territories of Europe. Thus, a range of different interpretations of MLG have emerged in many European countries over the past two decades, a fact which also provides some assistance in exploring the development of the territorial institutional system in Hungary.

Introduction

Over the last decades, which have been characterized by a "thirst" for improved public administration, various and complex patterns of interdependency between actors, institutions, functional activities and territorial organizations have emerged under the "umbrella term" of governance, which plays a central role in explaining and conceptualizing these changing relationships. The concept itself is not new, but has been radically reinterpreted over recent years, with a focus in particular on the shift from "government" into what has come to be called "governance", with its many different definitions, with implications not only for the process of governing itself, but also for the role that government plays in governance. (Kooiman, 2003, Kjaer, 2004, Peters and Pierre, 2005.) The main reason for the popularity of the governance concept lies

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in its capacity to cover an entire range of institutions and relationships involved in the process of governing, which is more than the narrower term "government" can offer.

Recently, a wide variety of theories have been developed in order to describe and understand this transformation and its outcomes: these explore the reasons for and elements of the profound restructuring of the state and its changing role in governing the relationships between society, the economy and the political sphere. (Börzel, 2010, Bevir, 2010, Pollitt and Bouckaert, 2011, Héritier and Rhodes, 2011.) As a consequence of two interrelated trends – namely "globalization" and "localization" – that have been gaining strength in the beginning of the new millennium, many conceptual models have predicted the "denationalization" of the state and a "hollowing out" process leading to a relative weakening in the role of the state in the management of social and economic relationships through the involvement of non-governmental actors in a range of state functions at a variety of government levels and across different territorial scopes. (Sørensen and Torfing eds., 2007, Bevir ed., 2010, Bell and Hindmoor eds., 2011.) In other words, governance has shown itself to be one result of a re-scaling process, which has taken place alongside the need to simultaneously perform traditional state functions with increasingly narrow capacities and resources. In doing so, there are strong incentives for and constraints against engaging additional actors with significant resources in the sharing of both responsibilities and the provision of services between the state and civil society.

The MLG concept had originally been applied to analyses of the operation and institutional arrangement of EU policy-making subsequent to the implementation of the acquis communautaire and has had a significant influence on the operation of the member states and the regional institutions. (Marks, 1993, Marks, Hooghe and Blank, 1996, Jeffery, 2000.) Nevertheless, the MLG was developed as a countering viewpoint to the state-centrism that dominated the study of the EU from the 1960s to the 1980s: it recognizes the importance of the central governments in the policy-making process, as well as the fact that there are sub-national participants of varying levels of strength, based on political and constitutional conditions, not to mention the fact that certain public policies are in diverse forms with respect to their institutional and legal nature, with differing significance in relation to certain parts of the decision-making process.

The MLG approach thus reflects a shift away from grand theories about the nature of European integration in favor of middle-range theories about policy-making within the framework of the treaties. (Enderlein, Walti, Zurn, 2010.) In doing so, it represented the EU as a political system rather than an intergovernmental system of negotiation. However, the MLG itself has been criticized for – among other things –being a description of the European Union rather than a theory with a testable hypothesis in the sense that MLG has been developed as a concept of policy-making in the EU as a political system, and not one of the development of European integration and the formation of that system. (Jordan, 2001, George, 2004.)

However, the socioeconomic and constitutional heterogeneity of the sub-national levels, where regional engagement varies across both member states and policy areas, seems to indicate the emergence of a Europe that includes some regions instead of the idea of a Europe of the regions. (Hooghe and Marks, 2001, Bache and Flinders, 2004, Piattoni, 209.) In another words, the concept of MLG acknowledges that European integration has not brought about the emergence of a homogenous regional level that could be treated as an equally powerful "third" or "intermediate" level compared to the supranational and national authorities. So it also needs to be explored under which conditions the regions are able to exploit the benefits of the "windows of opportunity" offered by the legal and institutional reforms of European integration pertaining to the notion of "deepening and widening". The precise degree of influence that regions wield in EU policy-making has become something of an open question.

The emergence of MLG has been strongly linked to the concept of Europeanization, which has also been defined and studied in many ways by comparing different dimensions across different states or within a single state, or by considering the accession process of CEEC. (Featherstone and Radaelli, 2003, Hughes, Sasse and Gordon, 2004, Schimmelfennig and Sedelmeier, 2005, Vink and Graziano, eds, 2007, Bache 2008.) In a very broad approach, Europeanization can be understood as a "two-way process", which can be modelled in terms of both a "top-down" dynamic – as the domestic adaptation to European integration – as well as a – "bottom up" one – as the "projection" of the interests of the member states onto the EU level. In order to analyze the process of Europeanization, the new institutionalist approaches of the rationalist, sociological and historical strands of thinking have proved very useful in generating contrasting hypotheses in relation to the nature and effect of the transformation of governance at the domestic level.

An application of the new institutionalism is helpful in understanding the relationship between Europeanization and MLG through EU territorial development in general and cohesion policy in particular. Cohesion policy has once again proved to be an "experimental laboratory" for developing and testing both the current and future public policy system of the EU, even when its relationships with the prevailing competitiveness strategy, the so-called "Lisbon Decade" and the following EU 2020 strategy, are analyzed. (Keating, 2008, Mendez, 2012, Doucet, Böhme and Zaucha, 2014.)

Nevertheless, one of the most significant elements of MLG is to explore the importance of the territorial aspect by shedding light on the role that regions and localities play in a governance structure. This mean that MLG denotes something different than the more general term "governance", emphasising the territorial dimension in order to avoid the danger of a clear tendency that "any complex organisation can be described as an example of MLG." (Keating 2008:76.)

The emergence of MLG has also proved itself quite appropriate with respect to the context of CEE countries since the end of 1990s. Due to their centralized national traditions, sub-national levels in these states were weak and lacked competencies and political power. Therefore the "Eastern style" of the Europeanization process highlighted the hierarchical and state-centric aspects of domestic adaptation fostered by "conditionality". (Featherstone and Radaelli, 2003, Hughes, Sasse and Gordon, 2004, Sturm and Dieringer, 2005, Vink and Graziano eds, 2007, Bache, 2008.) In addition, the domestic historical institutional traditions in CEE countries have strongly influenced the set-up of their sub-national levels, giving rise to variances in how these states have complied with EU influence, which hasn't facilitated the emergence of a "western-style" MLG in practice.

The principles discussed above provide the basis for the structural division of the paper. First, the concept of governance and the emergence of the "governance turn" in EU studies will be examined. After this, the development of the concept of MLG will be introduced in the context of the Europeanization process. The third section of the paper is an analysis of the territorial dimension of MLG in the light of new paradigms in spatial development as well as the "windows of opportunities" which have opened for regional interest representation in Brussels. Later sub-chapters explore the development of the territorial institutional system in Hungary. The last section contains conclusions relating to future perspectives and scenarios for MLG.

1. The analytical background of the concept: governance, "governance turn" and the process of Europeanization

1.1 The concept of governance and the "governance turn" in EU studies

The process of globalization and European integration have both had significant effects on government's traditional ability to steer society and the economy, as both of them have encouraged the transfer of authority and a shift in governance from domestic institutions to international bodies such as the WTO and to EU institutions. Both parallel vertical shifts in governance – upward to transnational organizations and downward to regions and local authorities – point to a weakened position and limited jurisdiction for central governments. (Kohler-Koch and Eising eds., 1999, Pierre and Peters, 2000, Bevir ed., 2010) At the same time, horizontal shifts in governance were generated by the financial crises of the various states during the 1980s and 1990s. As a consequence, states were forced to streamline bureaucracy and to introduce more customer-oriented delivery of services in the form of deregulation, decentralization, privatization, and contracting the services out.

Additional shifts have led to the emergence of three basic styles of governance: hierarchical, network, and market governance, which differ from each other in many ways, but appear in various combinations. However, these governance styles are also prone to their own characteristic failures: hierarchy can lead to the abuse of power, network governance to the abuse of trust (manipulation), and market governance to the abuse of funds (for example corruption). Furthermore, each of the three modes of governance has, on the basis of its own internal logic, different types of relations with other parties: dependency (hierarchy), interdependency (network) or autonomy (market). This leads to a high potential for conflict, as a hierarchical "command and control" style of governance will seldom lead to consensus (network governance), while market governance, based on autonomy and competition, is opposed to both of the control mechanisms of hierarchical governance and the mutual trust and interdependency of network governance. (Meuleman, 2008.)

Thus the term "government" refers to the dominance of state power organized through formal and hierarchical organs of state administration and bureaucratic procedures. The term "governance", however, refers to the emergence of overlapping and complex relationships and formal informal rule systems involving new actors external to the political arena. In general terms, "governance" signifies a change in the meaning of government, referring to a *new* process of governing; or a *changed* condition or ordered rule; or a *new* method by which society is governed." (Rhodes 2003: 65.)

In a descriptive sense, governance expresses the proliferation of mutually interdependent interest and agencies, new forms of service delivery and regulatory systems, and in its normative sense refers to an alternative model for managing public services in order to serve the public good. However, these restructuring processes have also led to the fragmentation of traditional government institutional arrangements, making the challenge of governance how to create the conditions that allow collective action to take place, as well as how to set up out of the mess of inconsistency new forms of integration through the involvement and participation of a multiplicity of actors. The ability to govern depends on "effective co-ordination of interdependent forces within and beyond the state." (Jessop 2007:1244.) In this way governance, is considered to be a process of horizontal co-ordination between sectoral policies, territorial levels and public/non-public actors based fundamentally on flexibility, partnership, and volunteer participation. Given the disaggregated nature of the policy-making process, the role and importance of policy networks must be taken into account in order to explain the policy outcome, by exploring how interests, norms, and resources structured in a particular sector on the basis of exchanging resources in order to achieve common goals. In this sense, governance also covers the management of the structure of network relations by institutionalized means for the sake of the process of consensus building and the outcome of joint problem solving.

The first wave of the so called "governance turn" in the process of policy making is closely related the New Public Management (NPM), which was introduced in the early 1980s by neo-liberal governments as a response to the decline of the Scandinavian welfare state model. The economic crises triggered reforms aimed at increasing efficiency and reducing the cost of public services. The tools of NPM were drawn from private sector management in order to incorporate deregulation, outsourcing, tendering out, and privatization into the practices of the public sector. Governance thus become a synonym for "steering", as the process of making decisions, as opposed to "rowing", the process of delivering services on the basis of a government's own jurisdiction (Osborne and Gaebler, 1992).

However, even though government is not fully in control of the process of governing and its role has changed, it remains responsible for the delivery and outcomes of public policies, and this is the essence of the dilemma that governments find themselves in as a result of the shift towards governance. Similarly, many advocates of NPM have neglected to consider the negative consequences of introducing private sector management practices into the public sector in that they prioritize performance over democratic accountability. Many criticisms have also been that argue that, as NPM considers public and private interests to be identical, and since performance depends on the motivation of civil servants to advance their own careers, there is no empirical evidence that NPM reforms have increased either productivity or welfare. According to this view, the participation of multiple actors at different levels can lead to a dispersion of influence and responsibility, which may cause serious accountability problems relating to a loss of confidence and trust on part of the voters. In other words, the new forms of governance can be seen as a way of coping with complex problems under conditions of uncertainty. The fragmentation and hollowing out of the state have negative consequences on accountability due to the increase in institutional complexity and the error made by governments in confusing responsive service delivery with political accountability.

Recently, as a result the criticism from the academic sphere that has been backed up by the experiences and consequences of the crisis management carried out since 2008, viable alternatives have emerged to the governance concept in general and to NPM in particular. Most of the theoretical concepts – its "toolboxes" – cannot be treated as "brand new"; however, they strongly relate to the re-invented efforts to "bring the state back in" after the traditional 'Weberian' state has been dismantled. (Drechsler 2004, Pollitt 2009.)

Among the contemporary approaches, one that can be mentioned is the Neo-Weberian State (NWS), which claims that notwithstanding the objective of the minimal state, the state remains a strong steering and regulating actor, as well as the initiator or facilitator of a whole range of additional democratic mechanisms. Private sector methods may be chosen on some occasions and for some policies, but they should not be considered to have any automatic priority or superiority. It should be underlined that NWS is not the mix of traditional Weberian bureaucracy with some NP efficiency tools. On the contrary, it seeks to modernize the state and includes both 'Weberian' and "Neo' elements. (Pollitt and Bouckaert eds., 2011, Heritier and Rhodes, eds., 2011, Bell and Hindmoor, 2011.) However, although NWS takes into consideration the genuine lessons drawn from the NPM experience, it may tend to go back to top-down forms of governance that are too rigid and inflexible to meet citizens' increasing demands.

Since the 1960s, research on the EU has basically dealt with the issue of how to explain European integration as a process whereby national sovereignty was transferred from the domestic to the EU level.[1] While the first phase of EU research has taken the institutional system of the EU as a dependent variable, the second wave of the "governance turn", focusing on the process of policy-making, takes it as a given political arrangement. (Kohler-Koch and Rittberger, 2006.) This new meaning of governance can be traced back to the significant increase in EU-level policy-making competencies, which was triggered by the Single European Act and the single market program. As a consequence, the emerging questions of "EU governance" as models, instruments, and conditions of policy-making and coordination has begun to broaden the focus of research formerly related essentially only to the development of "European integration". As a concept, EU governance consists of its own multi-level nature within the context of the entire EU "pillar" structure, the key role of supranational actors in the traditional "community method", the distinctions between "soft and "hard" policies, and the importance of private (non-state and non-EU actors) in the policy-making process. (Kohler-Koch and Rittberger, 2006: 33-34.)

However, the "governance turn" was strongly interrelated with the transformation of the nation state through European governance and thus revealed the impacts and requirements of European integration for domestic political institutions and policy process. From a governance perspective, the so called "Europeanization" that has become a leading concept in the field of European studies takes EU governance as an independent variable in order to describe and explain domestic adaptations or transformations. In addition, the process of Europeanization signifies the relationship between the EU and its member (and accession) states, so there is a consensus around the need to understand it as a two-way relationship. While Europeanization is not the only explanation for trends toward MLG across Europe, it is still worth reviewing the development and practical usage of the concept.

1.2 The Europeanization process

The term "Europeanization" has come to be used frequently in European studies starting in the 1980s. The popularity of the term can be attributed to its conceptual capacity, which exhibits two features. First, Europeanization expresses a "top-down" or "downloading" perspective of the European impact at the domestic level (Börze and Risse 2003; Radaelli 2003; Cowles, Caporaso, and Risse 2001.), in contrast to the "bottom-up" or "uploading" perspective of the domestic effect at the European level, which was dominant in the early days of European studies. Second, Europeanization draws on special attention to domestic political institutions as the focus of analysis in contrast to integration theories, which highlight national and supranational actors, such as states and the EC/EU, as major units of analysis. The focus on institutions provides a useful analytical dimension for studying the impact of the resurgent development of institutions at the European level on domestic political systems. So this is a useful distinction if Europeanization is regarded as an outcome of change at the domestic level. However, if it is the domestic level that initiates changes in the EU, then the variables are reversed. Taking into account the interactive process between the EU and the member states, which involves "top-down" and bottom-up" or "projection and reception" procedures, Europeanization as a conceptual framework and as a research agenda has become a popular, but often contested term in European studies. Most studies share the proposition that Europeanization is only likely to result in domestic change if there is some "misfit" or "mismatch" between European and domestic policies, processes, and institutions.

In order to understand both the force of what is "downloaded" in terms of EU regulations and how this "fits" with and is mediated by domestic factors, Börzel and Risse have provided a three-part categorization of the outcome of domestic change in response to Europeanization pressures (see Table 1).

Table No. 1. *Categorizing domestic responses to the EU*

Category	Features	Degree of Domestic Change
Transformation	States fundamentally change existing policies, practices, and/or preferences or replace them with new ones	High
Accommodation	States adapt existing policies, practices, and/or preferences without changing their essential features	Modest
Absorption	States incorporate EU policies, practices, and/or preferences without substantially modifying existing policies, practices, and/or preferences	Low

Source: Börzel and Risse (2003): 69–70.

There are broader interpretations, however, that identify different types of Europeanization based on modes of policy-making in terms of negative, positive and "framing" integration. The first identified "goodness of fit", the second regulatory competition, and the third learning. (Bulmer-Radaelli 2004, Knill-Lehmkuhl 1999.) Therefore, the Europeanization process requires a wide range of policy responses in terms of adaptation pressures, including normative and cognitive aspects, norms, and values, which may also imply diffusion of shared behaviors, ideas, and discourses. In this respect, the Europeanization of public policy constitutes constant and ongoing challenges for the administrative structures of member states, the promotion of institution-building, learning, and policy-making innovation at the domestic (national) and sub-national levels. (Paraskevopoulos 2002.) Adaptation pressures may take many different forms, being manifest in a greater awareness of European legislation as a growing willingness and ability to obtain resources from the Structural Funds and increasing the extent to which contacts and alliances are made with other European local and regional authorities.

While the concept of Europeanization and the necessary and sufficient conditions of change have been classified, there has been much less attention paid to the vertical and horizontal directions of Europeanization, especially to the compound effect through the interplay of the various types of mechanisms. Though definitions and analytical frameworks have been created for exploring the relationship between Europeanization and MLG, there have only been a small number of studies focused on specific policy sectors, assessing the extent and to which procedures and policy paradigms first defined the "ways of doing things" and consolidated them in the making of EU decisions and later incorporated them into the logic of domestic discourses and political structures. (Bulmer-Radaelli 2004:4.)

The two directions of Europeanization operate across the multiple levels of governance. Vertical Europeanization involves a clear demarcation between EU- and domestic-level policies, resulting in the need for adaptation to exogenous rationales (i.e. adaptational pressure). On the contrary, horizontal Europeanization is a process in which there is no pressure to conform to EU policy models, although "horizontal mechanisms involve a different form of adjustment to Europe, based on the market or on patterns of socialization, or the diffusion of ideas and discourses about the notion of good policy and practice." (Radaelli 2003:41.) Institutions of MLG operating on the same organizational level and having the same interests establish both formal and informal networks with each other. These networks come into existence in transnational organizational forms on the one hand, and in European institutions representing the interests of the member states on the other. The establishment of horizontal capacities is essential for the accessing countries, but at the same time – including in the case of Europeanization in Hungary as well – it is one of the bottlenecks.

Horizontal Europeanization may be interpreted as a kind of transfer of knowledge by which institutions get in contact with each other in a "cross-loading" way. Learning is an important dimension in all stages of Europeanization, mostly in the mode of governance characterized by the procedure of "facilitated coordination". This situation prevails where policy process is not subject to European law, or where the EU is simply an arena for the exchange of policy paradigms and ideas. In practice, these circumstances apply in such areas as public policy transfers (Bomberg-Peterson, 2000.) and the open method of coordination (OMC), enhanced by taking the Lisbon strategy under consideration, and in its more general sense, by social learning and its pre-requisite, institutional thickness, social capital, as well as policy networks and policy communities (Paraskevopoulos, 2002). During horizontal cooperation, theoretical and practical experiences of partners in member and non-member states are exchanged, but the role of the involved institution within and outside the EU is at least as determinative. The European Commission in particular may be regarded as a "policy entrepreneur", but there are also several regions and pressure-groups acting as a "strategic brokers" in creating transnational networks or as innovative policy-makers. The importance of institutionalization is indicated by the fact that regional and social actors have founded organizations and interest groups operating at the European level. Various forms of cross-border cooperation are also embedded in the system of horizontal relationships, which is a good example of the fact that in the Europeanization process, both vertical and horizontal aspects may have key roles.

Two conclusions may be drawn from this. On the on hand, horizontal contacts are present in all three types of integration mentioned above (positive, negative and framing), only to a different extent. The diffusion and sharing of experiences, the "spillover" effect of best practices, may be regarded as a transfer platform in order to enable policy change at the domestic level. On the other hand, however, it should also be noted that the concept of horizontal Europeanization may be applied in different cases: it includes the means and policies within the sphere of facilitated coordination; however, in the second case, the compound effect of vertical and horizontal mechanisms is achieved.

In the latter case, changes are started by the initiatives of European players, but as they work out the details of how to put the changes into effect, the involved actors of the member states constitute horizontal working groups, platforms or "forum politics" that will play a determinant role in the unification of the means of common policy, enhancing their application on a national level. (Harcourt 2003: 179.)

Despite the increasing popularity of the concept, there is a reasonable criticism of research on Europeanization that cites the fact that it is not the only explanation for the trend toward MLG. Undoubtedly, it is no easy task to make a distinction between domestic, EU and international drivers of change, as the process of European integration itself has a complex relationship with economic and financial globalization. In this context, the challenges to traditional forms of state as well as to the operation of domestic policies cannot be understood outside the context of global economic changes. In terms of linking Europeanization to MLG, it is necessary to make a distinction – at least in an analytical way – between MLG through Europeanization, which is strategic and procedural – for example the establishment of partnerships at the regional level – and MLG through Europeanization in the context of international and domestic drivers of change, for example the creation of partnerships for domestic programs (Bache 2008).

2. Exploring the concept: three waves of MLG

To be able to understand how the EU operates, the studies related to European integration basically offer three different models.[2] The first is the state-centric, or intergovernmental, model, which states that the direction and dynamic of the EU's development are determined by the member states (properly speaking, by the governments of the member states), and that the political decisions are based on intergovernmental agreements and deals. According to this model, the EU institutions and the sub-national institutions have only limited significance.

The second view is the supranational model, which emphasizes, in the name of federalism and neo-federalism, that European integration can be understood as a continuous processs of state-building through the development of the acquis communautaire. According to one version of this, the functionalism or neo-functionalism theory, in which integration, with the involvement of non-governmental organizations, spreads to new public political areas (this is the so called: spillover effect), and this effect is inevitably supportive of establishing "European domestic politics" above the national level.

The third approach is the concept and functional operation of MLG, which has already been a pragmatic component of European studies for more than two decades, with its roots going back to the development of neo-functionalism. Based on this, there is a new policy-making process evolving in the EU in which the central governments keep their dominant roles, but no longer possess a monopoly over decision-making. The responsibility for decision-making is shared between the central governments and the supranational, regional, and local actors.

The importance of MLG is also shown by the fact that, in the system of analytical frameworks and tools related to understanding European integration, it has become increasingly common to hold the governance model as normative. Its function has become particularly important nowadays in relation to reforms inside the EU institutions, as well as to the management of the global slump and financial crisis, the preparation of the 2014-2020 programming period, and the administrative and territorial development reforms of some of the member states.

The most important innovation of the concept and functional operation of MLG is that it integrates the previously specific and distinct processes of domestic politics and international relations into standard forms. According to this view, essentially four interlocking aspects can be identified, these being (1) the engagement of territorial, private, and non-governmental participants in the process of EU- and member state-level decision-making based on institutionalized, partner relations (2) the enlargement of the number and jurisdiction of the decision-making levels (3) the significance of policy networks, and finally (4) the question of how to harmonize the terms of the effective operation with the criteria of democracy. (Bache and Flinders 2004:2.)

The concept of MLG can be traced back to the influence of two interrelated facts. First of all, the development of the single market means that most of the sovereignty and the jurisdiction of the member states transferred to the EU level, and this implied the formation of a specific European political sphere and European domestic politics. On the other hand – especially after the 1988 reform of European regional policy – the presence of the regional participants in Brussels perceptibly strengthened, with their influence growing apparent both in the EU decision-making processes and in the implementation of the acquis communautaire.[3] From the point of view of the sovereignty of the nation state, MLG can be interpreted as the simultaneously created centrifugal process of European integration and of regionalization, wherein several elements of policy-making are transferred from the member states to the public and sub-national levels. (Marks, 1993, Bache, 2008, Bauer and Börzel, 2010.) All of these generated significant changes in conversations regarding subsidiarity, decentralization, and the states' new roles and their tasks in connection with these. When examined opposite the state-centric approach, MLG draws attention to the need for establishing diverse sub-systems to manage the complex problems of modern societies. Their operation is based on involving the stakeholders, where the exercise of jurisdiction is divided among the representatives of diverse levels, occasionally in different policy sectors.

Based on these views, the starting point for the concept of MLG is the idea and phenomenon of governance. The new paradigm – referring to the renewal of traditional government structures and methods – originally evolved from the practice of social partnership and the horizontal cooperation between the state and the private sphere.

In the process of governance, the government keeps its determining role, it integrates the loose, partner-style structure of the governance operation. The novelty of the approach of MLG is shown by the fact that alongside the determining role of the nation states, the interdependence and influence between supra-national and sub-national levels is also a central question (Conzelmann ed., 2008). As a result of these, the concept of governance based on horizontal relations is complemented by a vertical dimension.

In sum, MLG is, based on the context of EU policy-making, both vertical and horizontal, partnership-based governance that, thanks to the implementation of the acquis communitaire, has a significant influence on the operation of the member states and the regional institutions. It should to be pointed out that the concept of MLG recognizes the importance of the central governments in the policy-making process, and also recognizes that there are sub-national participants of varying levels of strength, based on political and constitutional conditions, as well as the fact that certain public policies are in diverse forms with respect to their institutional and legal nature, with differing significance in relation to certain parts of the decision-making process. (Bauer and Börzel 2010: 254).

The first generation of MLG studies, which evolved in the second part of the 1990s, put emphasis on two developments: first, the greater role of the regions in EU policy-making and implementation, as shown clearly by the 1988 reform, and second, the increasing activity of sub-national actors in Brussels (the so-called sub-national mobilization).

At the beginning, in light of the dominant "Europe of the Regions" idea, they were mainly looking for the answer through what institutional and informal channels, both intra-state (the establishment of a formal mechanism of involving sub-national actors) and extra-state (the creation of the Committee of the Regions and regional information offices in Brussels, as well as participation in transnational networks), the regions used to represent their constitutional positions and interests in domestic and the European politics. (Jeffery 2000: 1-2.) On the other hand, they were also searching for how much, and under what terms the EU regional politics could promote the decentralization, especially in view of the criteria and requirements determining the new member states' accession process.

As the "Europe of the Regions" idea was missing a substantive political background, and was replaced first by the concept of "Europe with the Regions", and later by that of "Europe with some Regions", in addition to the gatekeeper function of the member states' governments strengthening in regional policy, the territorial dimension also slightly decreased in the first years of the new millennium. During the same period, the second generation of MLG-studies was developed continuously. The leading role no longer belonged to the hierarchical structures; the emphasis was on the previously mentioned "governance turn", the organization and operation of the practice of the EU public policy system, policy networks, and the emerging new forms of governance, as well as on the relationship between efficiency and democracy (the so-called: "normative turn").

In the first case, the emphasis is on identifying how to reduce the efficiency and legitimacy deficits arising from applying the traditional community method and "hard" law by applying the toolkit of the new mode of governance, NMG ("soft" law, volunteer cooperation and new forms of regulation, policy networks, and an open method of coordination). The NMG literature stresses the need for establishing alternatives to the classic EU procedures. According to this, The OMC was introduced as a new model of governance at the Lisbon European Council in March 2000 to ensure progress in politically sensitive areas beyond the treaty-based instruments of policy coordination, which was mostly under competitiveness policies and welfare policies. Therefore, the OMC seems to be a convenient formula for addressing both the issues of competitiveness and social cohesion, while preserving at the same time the national autonomy of the member states. In a broader sense, the OMC forms part of the horizontal Europeanization that may be interpreted as a kind of knowledge transfer by which institutions get in contact with each other in a "cross-loading" way. This situation prevails where policy process is not subject to European Law, or where the EU is simply an arena for the exchange of policy paradigms and ideas. During horizontal cooperation, theoretical and practical experiences of partners in member and non-member states are exchanged, but the role of involved institutions within and outside the EU is at least as as determinative. The European Commission in particular may be regarded as a "policy entrepreneur", but there are also several regions and pressure-groups acting as a "strategic brokers" in creating transnational networks or as innovative policy-makers. Various forms of transnational cooperation, such as "territorial positioning", are also embedded in the system of horizontal relationships, which is a good example of the fact that in the Europeanization process, both vertical and horizontal aspects may have key roles. However, OMC is not without risk. Many contributions have referred to the voluntary nature of the OMC, which lacks the legal possibility of sanctions, to be too weak to ensure the implementation of the broadly defined common goals. (Caporaso and Wittenbrinck 2006, Schout and Jordan 2008.) The open nature of the OMC has also been questioned, considering that participation could be restrictive in practice, and the content of best practices could be shaped by particular interests. All in all, we should not forget that the OMC is a response to the need for flexible processes with high efficiency and respect for national autonomy that, at the same time, complies with the principle of subsidiarity and allows for more decentralized participation by stakeholders.

The second approach gets to the question at the heart of this "Faustian Bargain", as it is termed in academic literature, which is the dilemma of what to do when the traditional tools of democratic empowerment and legitimacy can be replaced in the interest of more efficient operation and coordination. (Olsson, 2003, Peters and Pierre, 2004.) In other words, if the national political community exists without the equivalent European demos, what kind of elements of the democracy can be used beyond the nation state's confines, and is the increased involving of the non-state members really an added value from the viewpoint of EU legitimation?

At present, the up-to-date, third generation of MLG studies are being developed. The starting-point is that MLG is serving the fundamental political goals of the EU as one of the pillars of "good European governance": not as a legal tool, but as a flexible action-plan, which is complementing the traditional community method based on a wide range of partnerships and by the simultaneous enhancement of the elements of efficiency and participation. The latest definition of MLG was published in February 2012 by the Committee of the Regions (CoR), clearly the most active institutional agent of MLG in the EU. The very title of the publication: – *Building a European Culture of Multilevel Governance* – indicates that MLG is interpreted here as the innovative renewal of the traditional community method and institutional balance as mutually reinforcing notions. More concretely, this denotes a flexible type of governance that builds on the partnership-based interaction of power levels and promotes the idea of participation (Cor2012). It is also stated here that the creation of the conditions for MLG is at the same time an element of EU2020 strategy and fits into the new paradigm of after-2013 cohesion policy by promoting the integrated approach and enhanced partnership. This also shows that the principle of partnership and the concept of MLG have been included in the Committee's proposal for post-2013 cohesion law, which defines as well as prescribes the circle of actors that member states will have to establish partnership agreements with in the process of elaborating partnership contracts and details of operational programs and their implementation, monitoring, and evaluation. The practice of contractualization of relationships requires the formation of several different forms of cooperation platforms to reinforce stakeholder commitment and awareness in influencing decisions.

The renewal of the concept of MLG entails the integration of previously evolved interpretations. On the one hand, the different interpretations of MLG and NGM are progressively ceasing, on the other hand, according to this more comprehensive meaning, MLG plays a more and more important role in the institutional reforms of the EU, and in the renewal of strategy regarding public policy and foreign relations. It must be taken into consideration that MLG cannot be used for every public policy, and it is not at all homogeneous in certain cases. This is why studies need to pay more attention to the conditions and degree of success of MLG in individual cases.

In its totality, MLG does not belong among the grand theories describing the development of European integration; despite this, it is a powerful concept both for analysis and functional adaptation. The conceptual frameworks of MLG are not definitive: there are several approaches to and forms of it both in theory and in practice. In the practical process, it is important to consider the ethos of its critics and alternatives in connection with MLG.

In light of the successive stages of development, the core essence of MLG can be reduced to five points of emphasis (see Table 2).

Table No. 2. *Five Dimensions of Multi-level Governance*

	Theme	Focus
1.	Although national states remain central actors, their capacity for direct control and intervention has waned due to the emergence of increasingly long "chains of delegation" and a shift towards the pooling of sovereignty in certain areas.	*Institutions*
2.	The delegation of powers, roles, and responsibilities involves both horizontal and vertical dimensions and is therefore inevitably linked to concerns regarding the "hollowing out" and "filling in" of the state.	*Capacity*
3.	Political arenas are interconnected, both formally and informally, rather than nested, and sub-national actors will often participate in supra-national arenas through the creation of trans-national networks.	*Relationship*
4.	The role of the nation state and national governments has evolved towards more of an emphasis on "steering rather than rowing" (i.e. attempting to manage complex networks) and "flexible gate-keeping" (in the sense of controlling the flow of resources).	*Resources*
5.	The transition from state-based government to multi-level governance has undermined traditional mechanisms of democratic accountability.	*Accountability*

Source: Bache, Bartle, Flinders and Marsden (2013:6–7.)

However, as has occurred with the concept of Europeanization, MLG has also been subjected to strong criticism and has become the subject of contentious debate. First, the concept of MLG has often been attacked for being too descriptive and for being unable to explain or predict governance policy outcomes. (Piattoni 2009.) Second, it tends to exaggerate the importance of sub-national actors and to neglect the implementation and outcome stage of policy-making, in which national governments have a particularly important role. Bache calls this role of national governments one of "flexible gate-keeping". (Bache 1998: 155-156.) Third, MLG is prone to exaggerate the hierarchical and legal nature of intergovernmental relationships while disregarding institutions and concentrating almost entirely on processes and outcomes. (Jordan 2001: 204.) Fourth, MLG tends to give priority to the objective of problem-solving capacity rather than democratic input and accountability. (Peters and Pierre 2004:76.) Finally, the concept often becomes a victim of "conceptual stretching", as, due to the dilution of conceptual precision, any complex and multifaceted political process can be described as MLG. (Piattoni, 2009, Bache and Flinders, 2004.)

In order to answer the critics, Gary Marks and Liesbet Hooghe have refined the concept by establishing "two types" or "contrasting visions" of MLG (see Table 3).

Table No. 3. *Types of multi-level governance*

Type I	Type II
General-purpose jurisdictions	Task-specific jurisdictions
Non-intersecting memberships	Intersecting memberships
Jurisdictions at a limited number of levels	No limit to the number of jurisdictional levels
System-wide architecture	Flexible design

Source: Marks and Hooghe (2004: 17)

Type I establishes general purpose jurisdictions, non-intersecting memberships, and a limited number of relatively stable levels that can be found in conventional territorial government with a strong federalist inspiration, while Type II allows for more task-specific jurisdictions, with tailored membership and a flexible design, more likely to be found in cross-border regions and to be widespread on the local level. In practical terms, it leads to the emergence of the vertical and horizontal dimensions of MLG being built on the relation systems of "geographical space" and "functional spaces". The latter is built on the interdependences and relations of actors – e.g. in the case of the business sector or the civil sector – whose scope of action does not necessarily coincide with geographically delineated areas. These types of MLG are not mutually exclusive, although their coexistence may lead to tensions, with such conflicts being an essential feature of MLG.

Therefore, the most important feature distinguishing MLG from governance in general lies in the territorial nature of its functioning and through this, its integration of a large number of stakeholders. It can be grasped fundamentally as territorial governance that allows for more task-specific jurisdictions, with tailored membership and a flexible design, more likely to be found in cross-border regions and widespread at the local level. In other words, a new, bottom-down integrated place-based form of MLG may be called territorial governance, to use previously existing terminology.[4] Territorial governance in this sense is a tool for the realization of territorial cohesion in which highly institutionalised, hierarchical, and looser, network-based coordination forms of governance coexist, often intersecting boundaries of public administrative.

MLG is also relevant in fostering "territorial positioning", not just within but also between regions, and as a result regions are intended to undertake a range of European activities, including the opening of offices in Brussels, bidding for funding, networking and developing partnerships, image promotion, as well as lobbying and seeking influence with EU institutions and within "umbrella organizations" of regional and local authorities. (Sykes and Shaw 2008: 61, Tatham 2008: 453.) The modern EU region is one which is actively engaged in Brussels networks by seeking to make use of all relevant opportunity structures of interest representation, instead of "going solo".

3. Territorial dimension in the making: from new forms of governance to regional engagement in Brussels

In the EU debates centering on territorial cohesion started in the 1990s, which led to the acceptance of the *European Spatial Development Perspective* (ESDP) in 1999 after the appearance of several strategically important documents (Europe 2000, Europe 2000+). The main aim was to depict the most important community priorities that can serve as a kind of compass for the spatial planning programs of the member states. As a next step, in 2004 the informal ministerial meeting of ministers responsible for spatial planning and development started the so-called "Rotterdam process" in order to strengthen the territorial dimension of sectoral policies. As a result of this, more and more strategic documents were published in the subsequent presidential periods. On the one hand, these policy documents were intended to influence the forthcoming financial perspective of the EU, and on the other hand, they made it clear that spatial planning, which remained within the competence of the member states, is a wider concept than simply a regional policy functioning on the principle of redistribution and aimed at having underdeveloped regions catch up. (Davoudi 2005: 435, Faludi 2007: 568.) Spatial planning has not become part of the acquis communautaire – mainly because of the German-French compromise made during the 1988 reform of the European Union's regional policy – and thus the community method ensuring the realization of EU policies does not apply to it. Not surprisingly, the informal meetings held with the participation of member state ministers and the experts of the European Commission became a regular event after the launch of the so-called "Rotterdam process" in 2004. These meetings gave occasion for the composition of specific developmental aims and priorities that were not supported by regional policies. All of these interlinked with the discussion of ideas related to the future of regional policies, and so the informal ministerial meetings soon became an important forum for the enforcement of rights in spatial planning.

As spatial development is traditionally a member state competence, the EU spatial development strategy (thereafter: Territorial Agenda 2020, TA 2020) could have been a good starting point for the planning of the 2014-2020 MFF. The strategy's approval, or, to be precise, update, during the Hungarian EU presidency in May 2011 put an end to a process started in the first half of 2007. The EU's ministers for spatial planning and territorial development had approved two key strategy documents in Leipzig on 24-25 May 2007: the Territorial Agenda and the Leipzig Charter on Sustainable European Cities, which linked its new strategic priorities explicitly to the future determination of the directions of cohesion policy after 2013 (Council of Ministers 2007). The "Leipzig process" also initiated changes in approach in European territorial policy: following the traditional, redistributive convergence-based approach, the exploration of territorial resources, unlocking growth potential based on competitive advantages, realizing territorial cohesion concepts and extensive implementation of MLG were then considered to be guarantors of progress. However, this is a new, bottom-down integrated place-based form of MLG that may be termed territorial governance, to use previously existing terminology. Territorial governance in this sense is a complex process integrating several policies for the improvement of a given place, as well as a tool for the realization of territorial cohesion in which highly institutionalised, hierarchical forms of governance coexist with looser, network-based coordination. Thus, even the best practices of territorial governance are a mix of more-or-less positive features, even despite the fact that it does not seem to be possible to look for "one size fits all" solutions concerning the transferability of territorial governance.

At the same time, it is also inevitably a matter of importance for the member states to learn how much the capacity of information transfer is and to become familiar with how the channels of lobbying in the MLG of the EU actually work. All this takes place in a unique political culture, where the competition of interests and a positive-sum game are both present at the same time. Therefore, a prerequisite of effective membership is the power to represent interests in domestic politics. National interests are defined not only by themselves but also based on package deals and ever-changing coalitions, interests and supports. (Navracsics, 1998; Marziali, 2006, Tatham 2008.)

This requirement can be clearly traced back to the multi-level, complex, multiple, and fragmented public policy system of the EU. It is quite easy for groups of interests, professional organizations and lobbyists to get into the public policy arenas in order to gain information and influence decision making. What is more, they are welcomed by the institutions of the EU, especially by the European Commission, which is always hungry for new cases. The above-mentioned organizations do play an important role in satisfying this hunger and providing the institutions with information, as well as with supporting the decision-making process. The establishment of regional representations in Brussels in the mid-1980s dovetails with the evolution of organizations and representations dealing with lobbying, which was inspired by the European Commission as well. These lobby groups not only emerged in the environment of the European Union, its top organizations were also established. Lobbying and gaining information became a "flourishing disciplince" in the Belgian capital. This is also signified by the fact that by the turn of the century, Brussels had became – after Washington – the second biggest center of lobbying in the world. No fewer than three thousand organizations and more than ten thousand official lobbyists – including regional stakeholders – are working in the name of different interest groups. (Greenwood, 2003; Goergen 2006, Simon 2009.)

3.1 Territorial cohesion, territorial governance and integrated approach: intertwining concepts without clear-cut definitions

Territorial cohesion is a new explicit and cross-cutting principle in the general regulation without a clear-cut definition, although its basic features have been adopted. (Medeiros 2011, Mendez, 2012.) In addition to traditional convergence priorities, targets of competitiveness and territorial capital have emerged, indicating that a clear paradigm shift has occurred in cohesion policy. The new concept enables citizens and enterprises to make the most of the inherent features of their territories. By exploring the importance of both the endogenous potential and vulnerability, tailor-made and integrated solutions have come to the fore, replacing the former "one size fits all" approach. Since today's challenges cross more and more administrative boundaries, the territorial impact of sectoral policies have to be taken into account in an integrated manner. As a result, reaching any kind or degree of territorial cohesion presupposes the application of the changing forms of an integrated approach.

Territorial cooperation is also a key instrument in fostering territorial cohesion building, mostly as part of the European Territorial Cooperation (ETC) program, which has become one of the two goals of post-2013 cohesion policy. (Böhme et al. 2011, Regulation on Territorial Cooperation, 2013.) However, there is a latent tension between the principle of thematic concentration for the implementation of EU2020 and the territorial objectives.

After the conclusion of the "Lisbon decade", the EU2020 growth and competiveness strategy was approved on 3 March 2010, after a relatively short consultation procedure between the end of November 2009 and mid-January 2010 (Commission 2010). The strategy has three main priorities (intelligent, sustainable and inclusive growth), five policy goals (employment, research, education, reducing poverty, issues related to climate change and energy supply), and seven flagship initiatives. It applies a thematic and integrated approach, policy coordination of EU and member states and large-scale reporting duties. However, this has resulted in neither a real policy paradigm-shift nor the adjustment of the main priorities of the previous Lisbon Strategy.

Realization of EU2020 raised many questions, especially regarding cohesion policy and about the comprehensive relationship to the budget of the 2014-2020 period. It is not surprising that after the approval of the strategy, the Committee of the Regions (thereafter: CoR) carried out a new survey consultation through the renamed EU2020 Monitoring Platform forum (CoR 2012). This indicates that the "Lisbon paradox" exists in the case of EU2020 as well. In spite of this, wide consensus was reached by the spring of 2010 that conditions and efficiency factors of growth and competitiveness are inseparable from territorial aspects. The EU2020 approach and content only remotely met previous expectations. The concept of territorial cohesion appears in many places in the strategy, such as inclusive growth and innovation in relation to R&D, education and applying resource-efficient technologies, but it does not give specific guidance as to how to put territorial aspects of the indicated actions into practice. (Böhme et. al 2011: 13.) In addition, the paper does not even mention key basic categories such as accessibility, functional areas, territorial capital and public services; instead, it limits the definition of networks to infrastructure and transport.

Nevertheless, underestimating the impacts of territorial aspects could lead to severe biases in the strategy implementation. In order to achieve inclusive growth, completely different projects are needed in peripheral, rural areas than what is needed in medium and large cities in need of structural reforms. (Böhme et al. 2011: 10.) Nevertheless, the integrated approach was able, at the same time, to find answers to questions such as optimal territorial scope, the coordination of intersecting and overlapping initiatives, the elimination of parallelisms, and last but not least. the creation of the necessary institutional and administrative capacities. After all, it is important to raise the question of whether the integrated approach brings a truly innovative and effective method with respect to the new regional paradigm.

The starting point to understanding the essence of the integrated approach is that drivers of growth differ between regions, but are always interdependent in each region. In addition, the new paradigm of territorial development is based on territorial competitive advantages ("no one size fits all") and its endogenous potential, as well as on considering the high vulnerability index facing all European regions. As a result, more and more crosscutting (horizontal) policy issues have gained importance, requiring that the relevant actors recognize their interdependence and work collaboratively. The integrated approach still has not received a standard definition, but the broad analytical framework of it has been established. (Rodrigues 2011, Koller, 2012, Pálné, Scott and Gál eds. 2013.) However, controversial statements have been made to the effect that integration among policies is the "natural" way, but unexpected externalities and conflicts may arise; that integration among policies is only possible within fixed and rigid areas, but the importance of functional areas cannot be denied; that the integration of policies is a matter of the programming phase, but the high level of uncertainty in the implementation makes the usage of the integrated approach necessary. And last but not least, that in contrast to the determinant role of vertical integration, horizontal integration turned out to be a case of territorial cooperation.

So it remains a major question how to find a proper balance in order to avoid competition and conflicts between stakeholders and policy sectors. In the first place, creating coordination mechanisms and institutions between the administrative boundaries and functional areas is needed within the framework of the state administration in order to establish contacts with their counterparts in other regions. This is underlined by different methods of policy coordination as determined by functional approach. As a result, the most appropriate territorial level may vary, and in addition, different partners at different levels may find it hard to cooperate. Broadly speaking, it may be a problem of inter-professional collaborations: working horizontally is a very time-and resource consuming activity. According to the relevant background papers, the well known theory of Gary Marks and Liesbet Hooghe, the Type II of multi-level governance seems to be a favored concept that allows for more task-specific jurisdictions, with tailored membership and a flexible design, which is more likely to be found in cross-border regions and widespread at the local level. (Marks and Hooghe, 2004.) This institutional arrangement expands the role of the "level" at which new challenges can be addressed, so that in addition to the regional level (NUTS II) local and sub-regional levels could also come into consideration. For example, in Hungary decentralized territorial development would be implemented at the county (NUTS III) level and in cities with county-rights and their surroundings (city regions), and in smaller towns and their surroundings. The interrelationship between territorial cohesion, integrated approach and institutions makes it necessary to create innovative tailor-made arrangements both at the national level and the transnational level.

3.2 The opportunities of territorial interest representation in the system of MLG

Regarding the development of MLG, dual parallelism became common on the sub-national level, namely the appearance of community and national channels of representing interests. Today, the stakeholders of the sub-national level can successfully emphasize their priorities on two levels (i.e. national and union) and through several institutions. The targets of the lobby at the national level are government authorities, the Permanent Representation and the national members of the Council of Ministers. On the EU level, the focal points are the European Commission, the Council of Ministers, the Committee of Regions, the European Parliament, the regional representations, and European networks and alliances. The success of the enforcement of interests depends in large measure on the national positions in the institutions of the EU and in their environments. From this point of view, the decision-making space of the EU can be divided into four categories: The groups of "insider insiders" refer to the employees of the EU institutions (e.g. members of the EP, commissioners, euro-diplomats, and the employees of the Permanent Representation). The next circle is the "insider outsiders", under which are meant the regional representations and lobby groups. The third category of "outsider insiders" is represented by the regional, national, civil and professional representations. The outside circle of the categorization is the "outsider outsiders", which includes the individual lobby activity of national and regional stakeholders. (Simon 2009: 88.)

At this point, the question arises of how the MLG is to be interpreted in respect of the RIO's role and functions. The sudden growth of numbers of the regional offices in Brussels can be explained in the previous context. The first office was opened by the Birmingham Town Council in 1984, and in the following year, two German states (North Rhein-Westphalia and Bavaria) established their own representations, having realized that German legislation was growing more and more determined by EU legislation. After these pioneers, there were other German states and British local and regional authorities that became very active. However, over a short period of time they were followed by the regions of all the other member states. The number of regional representations has been growing steadily: in 1988, 17, in 1993, 54, in 1994, 76, at the end of 1995, 108, in 2000, 1999, in 2006, as many as 231, and in 2009, 316 were functioning in Brussels. The growing presence of these is due to two factors: on the one hand, the deepening integration, i.e. the institutionalisation of the common market and European domestic policy; on the other hand, the EU12 and later EU15 step on the road of regionalization, though with different levels of intensity and with different contents. Taking Spain as an example, the country was the leader in the use of Structural Funds. However, it is also evident that the generally euro-sceptic British have established the greatest number and range of regional representations in order to maximize the use of the vast economic potential of the EU. The trends of establishment also grew after the 2004 enlargement, since the EU10+3 also started to open their own representations. Among the present-day member states, only the small and centralized

Malta and Slovenia still refrain from establishing these kinds of offices. In contrast to this, Norway – though not even a member state of the EU – has already opened five offices, and Romania also had three prior to its accession to the EU. It is also noteworthy that countries of the Western Balkans (e.g. Croatia, Bosnia-Herzegovina and Serbia) are also about to open their own representations in the pre-accession period.

All of the above explains the positive reception and legitimacy of the regional offices, although at the beginning they had to face a great number of difficulties. Their appearance in Brussels was a brand-new phenomenon: as they are not mentioned in the Treaties, they could not play an official role in forming EU public policy. Similarly, the well-based, practiced and experienced national representations were unhappy about the emergence of offices fighting for regional interests.

The Permanent Representations – playing the role of a postman between the EU institutions and the national authorities – were the most disturbed by the presence of regional representations. This phenomenon resulted, for quite some time, in the failure to develop a relationship, and in some cases, competition, since in the view of the Permanent Representations, the only way to realize national activity and functions was through diplomatic channels and under the scope of international law. Nevertheless, these relations had developed quite a bit by the mid-90s, after the parties realized that in a multi-level, multi-stakeholder environment, a well-organized and effective "outer EU system" plays a crucial role in forming national strategies and representing national interests.

At the same time, the regional offices also had to test their strength against the Belgian authorities, since at the beginning they could not nail down the legal status of the offices and their employees. In order to settle the administrative problems of these new representations, the Brussels-Capital Region opened the Brussels European Liaison Office (BELO) in 1991. This authority helps to issue work permit and the so called regional certificate, so that the employees of the representations can pay tax in their home country on their income earned in Brussels.

Finally, it is also part of the history, that these "newcomers" not only had to struggle with the Belgian authorities and their own national Eurocrats, but they were not accepted in their own countries either. The German federal government officially admitted the existence of representations only as late as 1993, though they had been functioning for more than ten years by that time. Spanish and Austrian ministries for foreign affairs were to an equal extent unhappy about the individual steps taken by their regions. What is more, the Italian government and Constitutional Court prohibited their regions from establishing independent representations. (Hooghe and Marks, 2001: 17)

After the efforts of one and a half decades, political and legal conditions were established in every member state. The growing number of legislatures of local and regional municipal governments, the ever more complicated decision-making mechanisms and the decrease in the EU's transparency all contributed to the growing legitimacy and importance of the Brussels offices.

4. MLG in a CEE country: the case of Hungary

The Europeanization of candidate countries has emerged as a separate research area, as the influence of the EU has been most apparent in the case of the post-communist Central and Eastern European countries (CEEs). The Europeanization of new member states has become a major research area since the 2004 eastern enlargement. The adjustment requirements to the EU did not only include the implementation of the acquis communautaire, but also an explicit political and economic conditionality. (Sturm and Dieringer, 2005, Schimmelfennig and Sedelmeier, 2005.)

In the fifteen years following the systemic change, the issue of regionalization emerged as a constant element of Hungarian scholarly and professional/political discourse, albeit with fluctuating intensity. Research groups and workshops published a significant number of analyses, empirical research studies, and strategies to aid the work of decision-makers. In spite of the simultaneous effects of positive factors in domestic policy and external forces, territorial reform proceeded rather slowly and haltingly. There was a clear consensus about the need to fill the gap between the central government and local municipal governments through the creation of a strong territorial meso-level but opinions diverged widely on the desired number of territorial governance levels, their range of authority, function, size, and their role in public administration and regional development policy. (Pálné 2008, Gazsó- G. Fodor-Stumpf 2007, Agg 2005.)

In order to understand the essence of the long-lasting debates, it is necessary to state that Hungary has a long tradition of being a centralized state. The Hungarian central government subsystem is divided into ministries, the number of which ranged between 12 and 18 from 1990 to 2010; at the core of these stood the Prime Minister's Office (PMO), with the head of the Cabinet, the Prime Minister, at its head.

The meso-level of state administration was the county, which played the role of regional authority and implemented the decisions of the central government at the lower tiers, as well as performed some redistributive functions. Towns and villages had no municipal governments and were subject to the redistributing decisions of the county councils both legally and financially. So it is not surprising that debates over public administration and local government focused on the future role of the county when the change of the political system started in 1989.[5]

4.1 The territorial system of Hungary: the first phase

As can be seen from the above, the restructuring of the teritorial system of Hungary upon the change of the system focused on the local level, aiming to ensure complete legal independence of municipal governments of communities. However, much less attention was paid to the operational efficiency of the new system or to the integrating function that the non-existent meso-level should have fulfilled, namely spatial development.

The major principle of Hungary's regional development policy and of the reform initiatives that surfaced from time to time was to chart the harmonization demands of EU cohesion (regional) policy and anticipate its direction of development. This approach was nevertheless based on the idea that changes had to be ushered in exclusively as a result of EU regulations, while in reality these changes resulted from the process of globalization or specific elements in domestic policy. Contrary to opinions that appeared in the pre-accession period (1998-2004), the EU does not have jurisdiction to oblige member states to set up municipal government or state administration regions. Moreover, in the programming period 2014-2020 functional areas and macro-regions will be favored – entities based on coordination and partnership that expand across state and public administration borders. This does not mean an absence of accommodation pressure with respect to public administration and cohesion policy: although the EU may not prescribe homogeneous public policy models, it may introduce requirements to reach desired targets, which forces member states to adopt common policies and practices in the form of public policy transfers.

As a result, EU expectations may not exclusively be interpreted in the light of a narrowly defined cohesion policy. One of the most important problems of the past was that in the aftermath of Hungary's systemic change, everyday duties executed in public administration and regional development policy came to be linked with adaptation to EU requirements, which would naturally change over programming periods. As a result, there emerged a clear dominance of momentary political interests in solving concrete problems over strategically planned long-term changes. The realization of an all-encompassing institutional reform would only have been possible if the interested political powers and policy communities had managed to proceed beyond a negative consensus of sorts (i.e. the recognition that changes were inevitably necessary). In fact, the reform may only have been successfully completed if a positive consensus had been reached on fundamental points such as the aim and content of decentralization (public administration and/or state reform or merely a strengthening of the institutional framework of regional development), on the necessary number of territorial levels, on what functions and jurisdiction should be transferred to regions from the central state administration level and the counties, on the public administration borders of rescaling, and on how all these should be linked to the reform of the election system. (Pálné 2008, Zongor 2004, Rechnitzer 2001.) The financial and economic crisis unfolding from autumn 2008 made it clear that to bolster Hungary's competitive position, the country's public administration system was in urgent need of redefinition, with special respect to the state administration, territorial and local municipal government, the developmental policy subsystems and their harmonization with the practice of MLG.

The formation of the Hungarian territorial meso-level has been fundamentally determined by two issues in the last twenty years after the systemic change. One of these is the creation of institutional and administrative capacities linked to the effective utilization of EU regional (cohesion) funding, and the other, closely connected issue is the definition of the territorial meso-level in constitutional and public law as well as functional practice. This latter movement is manifested in the process which is commonly called "the region-county debate", with its three phases distinguishable from the second half of the 1990s to the 2010 government change: "county-based regionalization", "EU-compatible capacity building", and "stealthy regionalization and the emptying out of counties". (Kaiser 2010b:33.)

The first phase between 1996 and 1998 was characterized by a "county-based" regionalization, which was initiated as a top-down movement but mainly realized in a bottom-up way, resting on county development councils. In spite of the fact that, on the Parliament's passing of Act LXV of 1990 on Local municipal governments, counties lost much of their jurisdiction, Act XXI of 1996 on Regional development and physical planning placed county development councils in key positions in the distribution of regional development funds as well as comment proceedings in national and sectoral programs and planning.

Thus regional development was coordinated by county development councils of a fundamentally insecure legal status – as county municipal governments lacked the necessary development funds. This paradoxical situation, like many other crucial issues, can be traced back to the so-called "region-county debate": what is the purpose and the content of decentralization (administrative and/or state reform, or simply to strengthen the institutions of regional development)? How many territorial levels are needed? What scope of duties and jurisdictions should be delegated to the regions from the central (state administration) levels and from counties? Where should the administrative borders of the rescaling be drawn? How should the territorial reform and the electoral system reform be connected?

The argument that the size of the country and its settlement structure do not warrant two territorial meso-levels favors the regional governments at the expense of sustaining the county system. However, according to those in support of the regions, certain necessary governmental tasks could be provided efficiently and professionally with the operation of the multi-purpose district associations of local municipal governments, as the counties are too close to this service level.

According to another argument, the most effective use of European Union sources for territorial catching up could be through the realization of regional projects. The planning and implementation of such projects are more efficient if the decision-making, in terms of the use of financial supports, is in the hands of a directly elected governmental body. The regional government itself would have its own income and right to levy taxes.

On the contrary, the counter-arguments emphasized that instead of the top-down implementation of the regions, there is a need for administrative reform that supplies the territorial and county-level institutions with functions. Hungary is lacking traditions and socio-cultural roots of regionalism, such arguments state. In addition, there are no statistically supported impact studies that underpin that regionalism would substantially improve the quality, efficiency, and accessibility of public services. The reality is, the arugments continued, is that it would only mean the reproduction of the county structure at the regional level, which, nevertheless, does not consider the tasks to be undertaken and the particularities of the clientele to be served.

In other words, regionalism aims to realize the more rational and inexpensive structure by creating the optimal unit size with regard to location, accessibility and socio-cultural factors. Although in this case, the costs of the institutional system could be reduced by carrying out the tasks on a higher level, significant social deficits could be accumulated through the requisition of public services.

4.2 The development of a territorial system in Hungary: the second phase

The second period, between 1999 and 2004, saw successive government programs proclaiming the intention to create regional municipal governments, but in practice, and in order to meet accession criteria, emphasis was shifted to fulfilling the requirements of the European Commission of introducing "EU-compatible regional institutional and administrative capacities". Regional borders were defined in Act XCII, which prescribed the formation of regional development councils, initializing the existence of EU-compatible statistical-planning regions.

It became clear that Hungary had to start adapting to the regional policy of the EU, which meant that the thus-far missing "EU-type" (NUTS II type) regions had to be created. Regions, eligible for Structural Funds grants (which come from the European Regional Development Fund and European Social Fund), have been classified at the NUTS 2 level. The current NUTS classification, according to EUROSTAT, valid from 1 January 2012 until 31 December 2014, lists 270 European regions at NUTS 2 territorial level (EUROSTAT 2013). NUTS 2 regions in EU are characterized by a population between 800,000 and 3,000,000 inhabitants. Both in the 2007–2013 and the 2014-2020 programming periods, Hungary has had seven NUTS 2 regions. As is also relevant for this study, Hungary also has 20 NUTS 3 territorial units (19 counties plus the capital city Budapest) with individual populations varying between 150,000 and 800,000 people. (Pálmai 2014: 158.)

Hence, the impact of Act XCII was twofold. On the one hand, it established NUTS II-type regions in Hungary with a view to the expected accession to the EU; on the other hand, it introduced a new system for managing spatial development. The regions created were only so-called "statistical-planning" regions, i.e. not administrative or municipal governmental regions, but only an "aggregate" of the counties without any administrative role save that of territorial development. Another sign of the weaknesses of the regions was that their establishment was not mandatory, but counties had the rights to create voluntary associations. Act XCII brought about a basic change when it stipulated that the establishment of seven regions was mandatory (see Figure 1).

However, in the new system of spatial development as introduced by the Act, the other new elements were the National Regional Development Council (NRDC) and the County Regional Development Councils (CRDCs).

Notwithstanding the fact that the amendment further defined the duties and competences of regional development councils, the jurisdictions of the regions remained rather weak. On the contrary, the Act created a stronger meso-level based on the counties with the establishment of the County Regional Development Councils. However, the

CRDCs had no incomes of their own; instead, their task was to coordinate the funds provided centrally by the government and parliament. In addition, only 10 per cent of the funds provided by the central budget for spatial development was actually channeled through the CRDCs (Verebélyi, 1999).

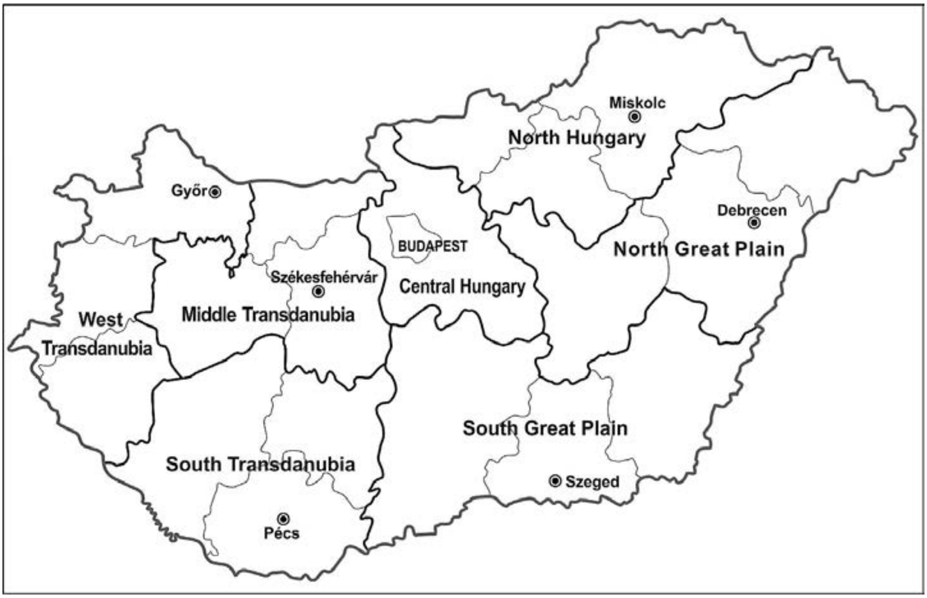

Figure No.1. *Statistical-planning (NUTS II) regions of Hungary with their capital cities*
Source: http://www.ksh.hu/docs/teruletiatlasz/regions.pdf

Territorial development policy at the NUTS II level was formulated by the Regional Development Councils. These were only aggregates of the CRDCs, but they originally still comprised a considerable proportion of their membership from the civil sector. This changed with the amendment of the Act XCII when the civil members were excluded from the operation of the council and their places were taken over by representatives of the central government (through ministries). Thus the government gained majority in the bodies, reducing the decision-making by the central government, as well as denouncing the principle of partnership. At the time of its establishment, each Regional Development Council set up its working organization, the so-called Regional Development Agency (RDA). The RDAs were supposed to efficiently execute the decisions of the Regional Development Councils and to provide the basis for the future implementation of EU regional policy.

At the same time, and closely tied to the management of Pre-Accession Funds, teams of professional and technocratic specialists were formed. The phenomenon cited in international literature as "Latinization" stands for the creation of a dual institutional and administrative structure with the appearance in the economic and financial sector of a well-qualified, modernization-oriented bureaucracy that concentrates on specific tasks, with activities separated from the everyday routine work of offices and invisible to the general public as well as professional circles.

If we wish to understand these changes, it is perhaps useful to remember that in the initial phase of the pre-accession process, the introduction of territorial meso-levels to the preparation work was strongly supported both by DG Regio and DG Enlargement within the European Commission. This is clearly seen in the European Commission's yearly Regular Country Reports (from 1997), which created the impression that the EU wished to introduce a decentralized model of regional policy implementation for newly joining countries. This decentralized model was to include directly elected institutions along with legal, institutional, and personnel capacities for the absorption of cohesion funding, as well as the formation of partnerships on a regional level. (Hughes-Sasse-Gordon 2004:25.)

The development of "regional capacities" came to become a mythical expression in the system of conditions facilitating accession, which gradually fused in political and professional discourse with the presumptive requirement for the creation of regional municipal governments. As a consequence, regions gradually acquired priority over counties in the preparation process for accession.[6]

As early as the end of 2001, regional administrative capacity, the Commission's "mantra", turned out to express the efficiency, transparency, and efficacy aspects of cohesion funds, which is independent from the question of whether institutional types prescribed in EU regulations are incorporated into the institutional system of public administration and regional development. (Hughes-Sasse-Gordon 2004: 81.) However, the most important lesson learned was the realization that the EU did not, and does not, have jurisdiction with respect to altering the public administration systems of member states, and it was never intended to – nor could it ever be. At the same time, the symmetrical model of regionalization proposed by the European Commission did play a significant role in the accession process and in the course of the negotiations, and this led to the birth of the concept that public administration reform, and especially the formation of legislative regions, is needed because of EU expectations.

After EU accession on 1 May 2004, yet another phase started in the history of Hungarian territorial reforms. As a result, two far-from-homogeneous processes came to define development policy at the county level – and the county itself as an administrative unit. On the one hand, the institutional and administrative capacities for the absorption of EU cohesion policy had to be maintained, and on the other, the urgency to finish the public administration reform that had been cut in half by the systemic change also presented itself. Proposals and concepts prepared to face these issues would increasingly acquire party policy biases after the deep fissures had appeared in Hungarian domestic policy. This resulted in a rather paradoxical situation with all parliamentary parties declaring the necessity of regional development reform in general, but without professional and political consensus being reached even on the most fundamental principles.

The implementation of the first National Development Plan, which summarized the development targets of cohesion policy was at the same time disappointing for the regions themselves: contrary to previous plans, only a top-down "central regional operational program" was completed, with the only consolation of giving the opportunity to regions to compile regional action plans suited to their specific conditions and development needs. At the same time, counties forced into minor roles could only play a role in cross-border cooperation. Their regional development jurisdiction and instruments were being sucked up by the regions from "above", and by the Act on multi-purpose district associations of local municipal governments (Act CVII/2004) as voluntary-based territorial units brought in strong erosive forces from "underneath".

4.3 The development of a territorial system in Hungary: the third phase

In the third phase after accession, from autumn 2004 to November 2008, the path of Hungarian regionalization went in two separate directions. A new, fairly centralized, efficiency-oriented institutional structure was built up on the New Public Management practice for the absorption of cohesion funds available in the EU's 2007-2013 programming period. Regional actors were left with relatively little space to move, even if – in contrast with the previous programming period – all seven regions now had their individual operational programs. As a distinctly different movement, powerful government initiatives were launched in summer 2006, when the second leftish-liberal Gyurcsány-government took office, with the aim of creating regional municipal governments. This latter process was later transferred to legal "byways" because of the missing political consensus for the modification of the constitution in the subsystems of public administration and regional development. This rather hectic process with regular ebbs and flows proved to be highly cyclical and may best be described by the phrases of "stealthy regionalization" and the "hollowing out of counties". This in practice meant that the government attempted to reach the aim of strengthening the two preferred levels (region and macro-region) by "stretching" jurisdiction, which in fact resulted in the "hollowing out" of the regional development and public administration jurisdiction of the counties and the transfer of funds disposal to the regional level.

The will of the government was to create an institutional framework of optimum size for providing territorial public services through the reorganization and contraction of the fragmented administrative organs. While there were 48 territorial administrative and law enforcement bodies in 2006, this number was reduced to 35 after the implementation of the reform, with 18 of these having competence at the regional level, 9 at the county-level, and 8 with special competence.

As a consequence of the contraction at the regional level, the number of territorial administration bodies decreased, although the former county-level offices remained operating as branch offices, employing fewer civil servants (besides which, there were some increases in staff at regional centers). However, there were no significant changes in carrying out the tasks: the newly established organizations generally performed the tasks of their predecessors, and the organizational reconstruction was not accompanied by a revision of the functions and jurisdiction of the de-concentrated bodies. The territorial administrative offices were not assigned new tasks by the central level, but generally by one of their partner authorities. Thus, the state administration reform had no decentralization or de-concentration effects, and in fact the direction of the changes was just the opposite: the powers transferred from the counties to the regional level.

The opposition of those days appealed to the Constitutional Court as early as the beginning of 2007, on account of the acts abolishing the county-level and metropolitan administration offices. The Constitutional Court, in its 90/2007 (XI. 14.) resolution entering into force on 30 June 2008, annulled the edict of the government regarding the administrative bodies. The justification appended to the resolution of the Constitutional Court questioned not the content of the law providing authorization, but its acceptance by a simple majority, as the modification of location, designation, legal status and organizational framework of an administrative body defined in two-thirds laws and the jurisdiction of the body exercising the legal supervision of the municipal governments can only be regulated by laws requiring a two-thirds majority.

As a following act of the story, the government, in its 318/2008. (XII. 23.) edict on territorial administrative bodies with general jurisdiction, converted the regional administration offices into regional state administration bodies. In this interpretation, the regional state administration bodies – with the exception of the legal supervision of the local governments and the municipal governments of minorities – became the general successors of the regional administrative offices. In other words, the ordinances and resolutions of local governments remained without legal supervision: for example, they could actually levy taxes without any external control prior to the fact, or they could decide on the sale of real estate properties.

The Constitutional Court ruling of 3 November 2008 on the dismantling of the regional public administration offices may be seen as the end of an era. The government made it clear that it would strive to consolidate the existing situation rather than proceed with the reforms in the remaining part of its time in power.

4.4 The transformation of territorial public administration and spatial development (2010–2014)

The second Orbán cabinet, which took office in the summer of 2010, immediately realized after its formation that the Hungarian system of public administration – with special regard to the operation of its territorial dimension – needed a full revision and a comprehensive reorganization. The Magyary Zoltán Public Administration Development Programme identified the total structural reform of territorial public administration as the most important part of the fundamental reform, of which the main components were not only the creation of government offices in the counties and Budapest, but also the establishment of the state administration system of districts.

Unlike previous governments, they both managed to set the main goals of the program and implement the necessary measures of transformation due to possessing a two-third majority in the parliament. The principal elements of the reform were the unification of the fragmented territorial system of public administration and the introduction of the "one-stop-shop" administration. The above-mentioned reform process began instantly after the change of government in spring 2010 and finished by the end of 2013.

The cabinet gave priority to the termination of an unconstitutional period resulting in the nonfunctioning of public administration offices and the intermittence of the legal supervision of local municipal governments. Government offices in the counties and the capital restarted their operation on 1 September 2010, restoring legal supervision in addition to rationalizing the placement of government functions from the regional to the county level and that of Budapest.

Therefore, capital and county government offices – as "the extended arm" of the cabinet – have become facilitators of implementing multi-sectoral government decisions at the territorial level. Consequently, the functional integration of territorial public administration has begun while founding the process of a large-scale structural integration. Simultaneously, it has become possible to incorporate more than thirty then autonomous territorial state administration offices into the public administration system as specialized administrational organs, according to the government decision schedule.

23000 civil servants of 253 organs and 14 organizations were affected as a result of the formation of capital and county government offices on 1 January 2011. Attention was focused on horizontal and operational integration at the territorial level, which could guarantee the effective usage of institutional and human resources in a unified system and one single budget authority, while assuring expert leadership and the autonomy of professional decisions. Dual control ensures the correct performance of these offices: the Ministry of Public Administration and Justice exercises structural and functional control, while line ministries generally carry out professional leadership tasks via central offices.

Capital and county government offices have had wide jurisdiction, significant human capital, and a remarkable organizational and fiscal capacity; this is why a multilevel leadership has been developed to best fit the system. Government offices are headed by government commissioners, who can be members of parliament at the same time, as the representation of government decisions at the territorial level requires strong leaders. Since territorial state administration demands political decisions as well, it is of the utmost importance that political leaders be in charge of government offices.

A main characteristic of government offices is the "dual management model", that is, the functional and the professional. Accordingly, they consist of specialized administrational organs and a central office led directly by the government commissioner. Central offices fulfill the previous professional and institutional duties of the government offices, tasks related to education, and other government office functions like financial management, human resources duties, and IT tasks. Professional leadership of specialized administration organs is provided by the head of each institution, central offices of the sectors, and relevant line ministries.

However, having a head of the specialized administrational organ means another separate level of leadership, as government commissioners are eligible to exercise employer's right subject to the prior consent of the line minister to appoint or dismiss employees. The head of the specialized administrational organ makes independent decisions in his/her own jurisdiction, and exercises employer's right over the civil servants of the specialized institution.

In the first phase of the operation of government offices, central offices were highly overburdened. On the one hand, there was a need to establish unified control and the creation of a single organization by fitting the integrated organs together, while on the other hand, the operating budget of these institutions was transferred to government offices, viz. into the budget of the Ministry of Public Administration and Justice responsible for operational control.

Effective as of 1 January 2012, as a result of the supervision of the system of defense committees, together with the formation of the integrated state organization of disaster management, government commissioners have become presidents of county defense commissions. Also, from this time forth, government offices' legal monitoring of local municipal governments was extended to legal supervision, which strengthened the lawful functioning of the municipal governmental system by broadening the possibilities for state intervention.

According to regulation changes, interim duties were taken over by the metropolitan and county government offices as of 15 April. Competence was delegated to the state administration system of districts on 1 January 2013. In addition, new specialized organs of government offices, namely the "restoration specialized administrative organs" were formed and started operation on 1 July 2012. By 21 September 2012, regional offices for the preservation of the nation's cultural heritage had been transformed into county-level organizations, and were temporarily integrated into central offices, until the formation of the state administration system of districts.

As a matter of the implementation of the cohesion policy, the abolishment of the National Development Agency came into force on 1 January 2014, the horizontal tasks of the agency transferred to the Prime Minister's Office, while the directive authorities transfered to the competent professional portfolios.

According to the decisions regarding the reconstruction of the institutional system of development policy, the transformation started on 1 August, when the legal supervision of the National Development Agency transferred to the Prime Minister's Office. In addition to this, the National Economy Planning Office ("Nemzetgazdasági Tervezési Hivatal") – established in December 2011 – and the Governmental Committee of Development Policy ("Fejlesztéspolitikai Kormánybizottság") – established in July 2012 – gained key roles.

The reconstruction arrived at its final stage in its "second step", which began on 1 January 2014. The carrying out of the programs of the 2007-2013 period will take place in this final structure, along with the planning and implementation for the 2014-2020 period. The most important part of the reconstruction is that the directive authorities managing the given topic go to the ministry strategically responsible for a given territory.

The horizontal organizational units merge with the Prime Minister's Office, where the secretariat tasks of the National Development Cabinet are handled: these include the prevision and confirmation of the constructions, communications, the issue of social reconciliation, legal remedies, human issues and the IT monitoring of the development resources. The Prime Minister's Office gets the tasks of managing the budgetary division – Division XIX. manages the European Union resources – and the supervision of the public procurement as well.

The directive authorities, merging with the ministries, will continue to operate as offices of the secretary of state, while the departments of the National Development Agency, merging with the Prime Minister's Office, continue to operate as departments.

In October 2012 the government authorized the commissioners to coordinate high-priority national economic investments; thus they may request relevant data, may make contact, may call for forming task forces, may initiate supervision measures, may conduct monitoring, and may make recommendations; in addition, they are obliged to inform the government and its members, and make proposals to the cabinet, as well.

On 3 January 2011, 29 integrated service contact centers or “Government Windows”, namely “one-stop-shops” were opened throughout the country. However, this was only the first phase of making the system of one-stop-shop administration general and widespread. These administration windows deal with 29 different types of public administration procedures; their primary activity is providing citizens with thorough and accurate information on state administration procedures. These client-friendly one-stop-shops await customers during exceptionally long opening hours, from 8.00 a.m. to 8.00 p.m. According to the work schedule, civil servants are required to work in two shifts.

In order to form the state administration system of districts, Government Decision No. 1299/2011 (IX.1) was approved on the organization, competence and requirement of administrative district offices. A district is the lowest level of administrative division regarding both territory and structure. The main goal of the regulation was to clearly define the tasks of municipal governments and those of state administration. That is why these sets of measures have alleviated the burden on the lowest level of state administration, that is, on municipal governments; in addition to this, the administration process has become simpler and more effective thanks to Government Windows. Based on this, 175 administrative district offices have come into being in the provinces and 23 in the capital as of 1 January 2013. While forming the districts, it had to be taken into account that the furthest settlement should not be more than 30 kilometers away from the district seat, that the jurisdiction of the state and the districts should be harmonized, and that the already existing contact centers should be maintained if possible.

The most important task of administrative district offices will be the fulfillment of state administration duties that fall below the county level as document office duties, certain guardianship and child protection cases, certain social, environmental and nature conservation administration cases, breaches, etc. Competences and regulations of the board of representatives – which require detailed local and area-specific knowledge – remained in the jurisdiction of the notary.

Presently, district offices consist of central offices and the specialized sub-regional administrative organs of county government offices (which ceased to exist on 1 January 2013) as specialized administrative organs, and the organizational units integrated into the central office (e.g. Office of Government Issued Documents), which had taken duties over from the notary. However, in order to retain previous contact centers, a system of branch offices and auxiliary branches have been organized. By the end of 2013, one-stop-shops opened in district offices, as well.

Conclusion

Over the last decades, which have been characterized by a "thirst" for improved public administration, various and complex patterns of interdependency between actors, institutions, functional activities and territorial organizations have emerged under the "umbrella term" of governance, which plays a central role in explaining and conceptualizing these changing relationships. Multi-level Governance (MLG), as a concept, is well-described in the literature of politics and public policy. The principal value of the concept is that it allows for an understanding of complexity both at and between individual levels. In this sense, the vertical concept of MLG, which includes levels both "below" and "above" the nation state, parallels the horizontal concept of complex governance, which includes new forms of cooperation between state and non-state actors. It should be noted here that in spite of the increasing degree of regional mobilization, there is a wide variety in the scale and degree of political and social institutionalization across the various territories of Europe. Thus, a range of different interpretations of MLG have emerged in many European countries over the past two decades, a fact which also provides some assistance in exploring the development of the territorial institutional system in Hungary.

In the process of governance, the government keeps its determining role; it integrates the loose, partnership-style structure of the governance operation. The novelty of the approach of MLG is shown by the fact that in addition to the determining role of the nation states, the interdependence and influence between supra-national and sub-national levels is also a central question. As a result of these, the concept of governance based on horizontal relations is complemented by a vertical dimension.

In its totality, MLG does not belong among the grand theories describing the development of European integration; despite this, it is a powerful concept both for analysis and functional adaptation. The conceptual frameworks of MLG are not definitive: there are several approaches to and forms of it both in theory and in practice. In the practical process, it is important to consider the ethos of its critics and alternatives in connection with MLG.

In the light of the emerging new territorial paradigm, and the requirements of the post 2013 cohesion policy, four different scenarios of MLG can be distinguished (Ágh, Kaiser and Koller 2014:17–18):

(1) The “minimalist” scenario is based on a combination of a weak Type 2 (weak cohesion policy within) and a weak Type 1 in which the intergovernmental approach will at the same time mean the “renationalisation” of funding and the promotion of the role played by the member states and their central governments. It seems to be very close to the concept of ”metagovernance”, which highlights the need for central authority acting as a “strategic enabler”, a “primary organizer”, and a “court of appeal” at the top – within and over the existing forms of governance. Macro-regions, functional macro-regions and meso-regions would not be given a major role in this scenario.

(2) The “spatially blind” scenario departs from the coexistence of a high-level Type 2 and a weak place-based cohesion policy (Type 1) within which sectoral policies (energy, transport, environment protection) will dominate, with occasional territorial impacts, as well as the development of public services being given priority. This scenario may finds its institutional architecture in the concept of the “whole of government” responding to the insufficient operation of the coordination mechanism, as the central government is encouraged to strengthen its capacities for creating coordinative structures inside the existing central organs.

(3) The “territorial” scenario builds on the duality of a strong Type 1 and a relatively weak Type 2. Strong regional (and territorial) governance and integrated territorial development in general, the implementation of cohesion policy in particular will be decisive without playing an essential role in establishing the conditionalities of the “integrative balancing”. Meso-regions and, as a newcomer, functional macro-regions will play a decisive role gaining significant part of cohesion policy funds by presupposing the application of the new place-based paradigm.

(4) The “all inclusive” scenario is regarded as the ideal model of MLG as a combination of the strengths of Type 1 and Type 2, presupposing both of the leading role of cohesion policy in implementing the Europe 2020 Strategy and the re-birth of the decentralization process in the member states as a balance of bottom up and top down approaches to the concept of governance. Extended territorial cooperation is stronger than in the case of the other scenarios, as all the meso-regions in fact cooperate with their neighbors: within the member state, in the form of transborder regions and functional macro-regions, and also within the framework of macro regions as diving force of completing the aim of “integrative balancing”.

To sum it all up, on the basis either of the “territorial” and the “all inclusive” scenarios which have been indicated as one of the future scenarios, the key MLG concept as a political and theoretical innovation has opened the way for the operation of the good territorial governance.

Questions

1. Introduce the threefold categorization of the domestic responses to the EU.
2. Which are the main elements of the „governance turn” in EU studies?
3. Introduce the essence of the three waves of MLG.

4. Explain the two types of MLG.
5. Define the term of territorial governance.
6. Outline the four categories of decision-making in the EU.
7. Introduce the characteristics and tasks of the government offices and „one stop shops” in Hungary.

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Endnotes

1 For a recent summary see Diez and Wiener (2004: 6-10).
2 See in detail the chapter of Diez and Wiener (2004: 1-25)
3 The reform principles included an integrated approach, concentation, additionality, programming and partnership. In fact, it promised nothing less than the transformation of vertical relationships via functional policy-making (Bauer and Börzel 2010: 255).
4 In the following two sub-chapters I heavily relied on my previous papers (Kaiser, 2010a, Kaiser, 2014).
5 See in detail Ágh 2005:73-129.
6 According to Phare directives Preliminary Regional development Plans were laid out in the regions as parts of the Preliminary National Development Plan between 2001 and 2003; from 2001 this entailed the right of disposal over an increasing amount of decentralized resources from the domestic budget.

CHAPTER FOUR

European Union Economic Governance – Sustainable Budgeting: Fiscal regulations as instruments for a sustainable budget*

The economic and financial crisis affected all European Union countries, as a result of which there was and continues to be a clear need for consolidation. Clearly, the debate around the sustainability of public finances is also set to intensify in the coming decades. Sustainable growth and poverty reduction can be achieved only with prudent macroeconomic and, in particular, fiscal policies. Fiscal stability must be preserved and public deficit contained. Over the past two decades, a number of other countries and even the European Union have introduced rules to fight „deficit bias". The question of whether fiscal rules are effective in stabilizing public debt continues to be raised. Nobody is yet able to answer this question definitively, but we clearly need special tools and mechanisms to address this problem. It is important to point out that fiscal adjustment in and of itself will not necessarily do the trick. While the size of the (cyclically adjusted primary) deficit is a key factor in determining fiscal sustainability, it is ultimately the long-term growth potential of the economy that must be front and center.

Introduction – The importance of fiscal sustainability

The economic and financial crisis has revealed a number of weaknesses in the economic governance of the EU's economic and monetary union. Throughout Europe, governments, businesses and families have been forced to pay attention to where their money goes. It has become essential to effectively allocate the limited resources available, and to decide in what areas to make cuts and where to invest. A country can live with a huge budget deficit and public debt.[1] Not forever, but for a relatively long time. But this is possible only if the markets are prepared to finance the imbalances, which requires a high degree of trust from investors. If an unexpected event arises, such as the current global crisis, this trust is destroyed from one moment to the next and the maintenance

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of this model built on attracting foreign liquidity becomes unsustainable. In this case, fiscal adjustments must be made.

Excessive public debt levels bear the high risk of debt crises (liquidity[2] and solvency problems[3] of the affected states). This results in further risks and negative effects, such as a loss of public and investor confidence in the policy, a loss of growth potential through an "explosion" in the cost of capital and/or an outflow of human capital. At the international level, national debt crises bear the risk of disturbing the international investment climate as they incite transmission or contagion fears. The devaluation of the local currency – which is usually a result of the debt crises – is also connected with a reduction in living standards that can be affiliated to the increase in import prices, the increase in the cost of foreign currency loans and the downsizing of the public service supply (e.g. due to compensation of additional expenses on inputs and interest service).

Budget deficits can also be caused by external factors (e.g. by aggregated economic demand failures of the automatic stabilizers, by the aging of the population, etc.). Moreover, the states found themselves partly forced in the current financial and economic crisis to socialize private losses and to take over liabilities for private debt.

The difficulty of fiscal consolidation must not be underestimated. The years of financial crisis have left a difficult legacy: temporary support measures must be reversed and the structural problems of public finances need to be addressed. Remediation measures avail nothing if they do not address the problem of persistent deficits at their root. Therefore, ways should be found that contribute to the permanent containment of the „deficit bias" and ensure the room for maneuver to intervene of the state in the long term. The challenge is not only to limit the rise of national debt, but also to reduce it. The debate around the sustainability of public finances will only be intensified in the coming decades. Strengthening of fiscal discipline in the current context of the debt crisis in Europe is the top priority. This can only be achieved through a package of measures such as the agreement of rules (e.g. limits on spending, but also on liabilities), increased transparency (e.g. to quickly visualize any deviations from the planned budget path) and sanctions. National financial management and other domestic fiscal frameworks are rules and procedures that affect how the planned budgetary policy is approved, implemented and monitored. These include national numerical fiscal rules, independent fiscal institutions and Medium-Term Budget Frameworks (MTBF) in particular.

Fiscal policy is pursuing several goals, such as achieving sound fiscal positions, reducing the cyclicality of fiscal policy and improvement in the efficiency of public spending. The central objective of sustainable fiscal policy is to establish and maintain intergenerational equity. This means that future generations will not be burdened by mountains of debt in order to finance present consumption.

Therefore, the consolidation of public finances is a vital task. Sound fiscal policy aims – especially in highly decentralized countries – to improve coordination between the various levels of government. Finally, by means of surveillance of the effectiveness of spending programs and a purposeful allocation of resources, the efficiency of the use of public funds should to be ensured.

1. European solutions to the economic crisis

1.1 The European system of economic governance before the economic crisis

The events from the inception of the EMU in the Maastricht Treaty read in many ways as The History of a Foretold Crisis: almost everything went wrong from the start. Because monetary policy became a union competence, whereas economic policy remained largely a member state competence most economists already indicated at that time, that that was asking for trouble. These warnings, however, were not followed up on, and the entire legal set-up had not foreseen a crisis resolution mechanism.

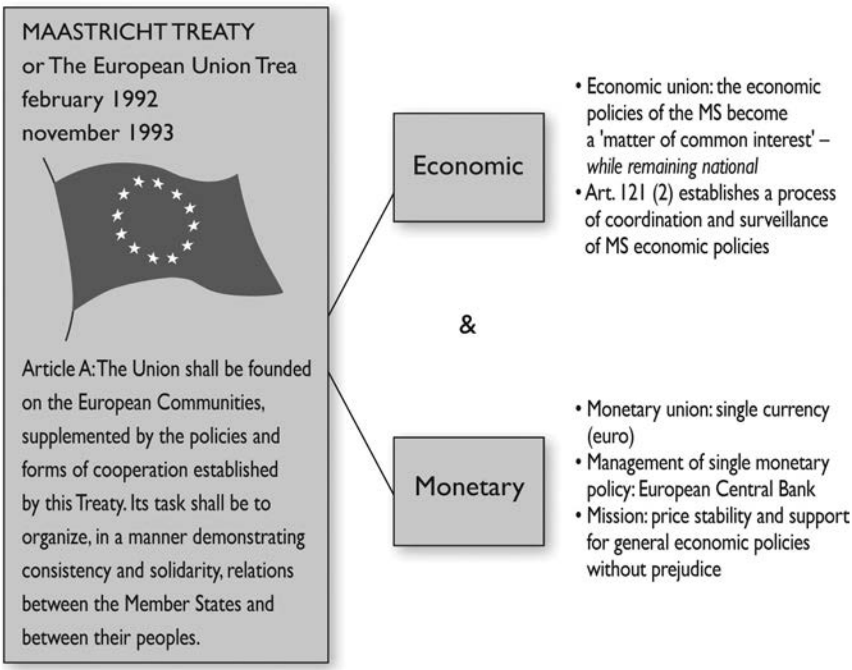


Figure No. 1. *On the origins of European economic governance*
Source: author's compilation

Furthermore, one had put blind faith in the corrective capacity of the markets and in the continued growth of the economic engine – naturally this faith also proved to be unjustified. There was even no option to leave the Eurozone, so, once the exchange rate had been irrevocably fixed on the first of January 1999, it became completely impossible for member states to use the most traditional and effective tool to overcome financial difficulties; namely, to devalue their national currency. Clearly, this was based on the assumption that this would no longer be necessary. The events of the economic crisis have indicated that this was arguably a wrong assumption.

When looking at the European system of economic governance before the economic crisis, it becomes evident that this suffers from several important shortcomings. Four of these I think deserve to be mentioned.

First of all, market discipline failed as an instrument to bring about the required budgetary discipline. For a long time Member States belonging to the Euro area paid similar interest rates for their bonds on the markets. The markets actually acted as if there were no differences whatsoever between the Member States in terms of their competitiveness or in terms of their budgetary discipline. Only after the start of the financial crisis did they start differentiating between these countries, too late but often even excessively from that moment on.

Secondly, the Stability and Growth Pact did not function as was properly expected. The best example in this regard is the 2003 fiasco relating to the situation when France and Germany actually failed to comply with the budgetary norms. The commission proposed imposing financial sanctions upon them, but these did not materialize as the required number of votes within the Council of Ministers failed to be reached. When push came to shove, the Stability and Growth Pact proved to be toothless / useless in the end.

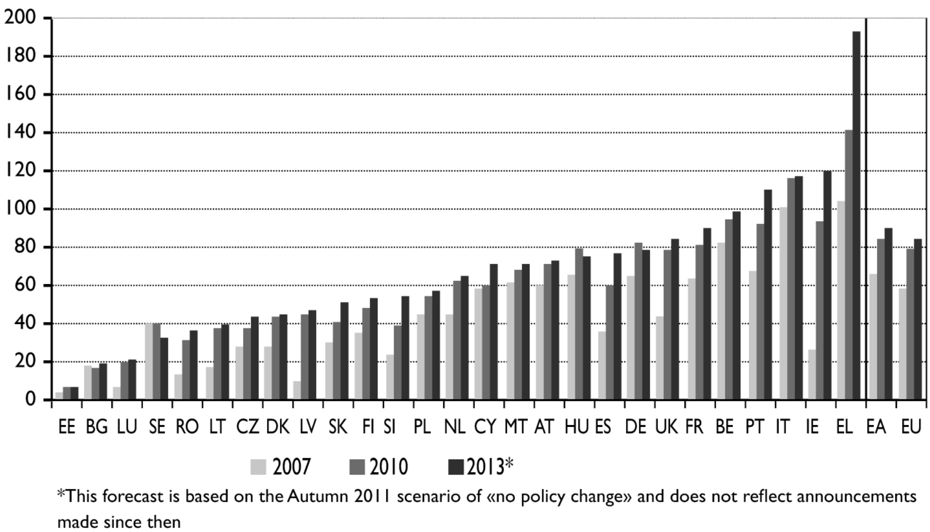


Figure No.2. *Government debt in % of GDP*[4]

Thirdly, there was also an assumption that if neither the markets nor the Stability and Growth Pact could bring about budgetary discipline, budgetary violators would then have to deal with the consequences themselves, even if the actual consequence happens to be a default. This, strictly speaking, was the rationale underlying the "no bail-out clause" of article 125 of the Treaty. But the crisis has shown in practice that it is impossible to apply the no bail-out clause with full rigor within the Euro area. The risk was simply too high that the crisis would spread to other countries within the Euro area.

And lastly, the rules in the treaties also paid too much attention to budgetary discipline, and with insufficient focus on micro-economic imbalances. Vulnerabilities in the financial sector and divergences in competitiveness are certainly important factors also.

The Maastricht Treaty specifies, that government debt must not exceed 60% of GDP unless it is sufficiently diminishing and approaching 60% at a satisfactory pace. Unsustainable levels of public debt undermine macro-economic stability, increase government spending interests and the higher taxes required to service the debt may act as a drag on growth. Despite this, government debt-to-GDP ratios increased drastically over the 2008-2012 period in both the Euro area (24.9 percentage points) and in the EU-27, sustained by government budget deficits (negative primary balances), increasing interest payments and lower nominal GDP growth. During the crisis, the total debt-to-GDP ratio of the EU-27 registered a negative trend, peaking at 85.2% in the last quarter of 2012 (most recent available data).

The highest ratios of government debt to GDP are recorded in Greece (156.9%), Italy (127.0%) and Portugal (123.6%). Total government debt is higher than annual GDP also in Ireland, and close to this level in Belgium. The lowest ratios, by contrast, are registered in Estonia (10.1%), Bulgaria (18.5%) and Luxembourg (20.8%). The values from the last quarter of 2012 represent a peak (since 2000) for 11 countries, including Germany, Portugal, the Netherlands and the UK. Greece, instead, peaked (170.3%) in the fourth quarter of 2011 and its decrease in debt is mainly due to the exchange of bonds. Hungary (79.2%) also improved its situation compared to the peak recorded in the second quarter of 2010 (85.3%). However, there is a danger that the subject assessment of saving measures aimed at reducing the national debt could underlie a so-called rationality trap.[5] What at first sight might sound plausible and obvious to every household can have unexpected consequences for the economy. If the state cuts its spending, this inevitably impacts on the expenditure side of the state budget. This in turn means that aggregate demand falls, leading in turn to declining or negative economic growth, whereby the tax revenues of the state are simultaneously reduced, which can lead to a negative effect on savings. Latest researches[6] – and slowly even the fiscal policy – points increasingly on the central role of the financial sector to economic growth and thus for economic development in general. Prudent, sustainable fiscal policy also promotes economic growth. Appropriate fiscal policy is dependent upon the economic situation and time frame. In the long run, fiscal policy should have as a goal to keep the national debt in a sustainable level. In the short term, however, optimal fiscal policy might vary.

The government debt crisis has many origins. In any event, it is safe to say that the debt crisis is closely linked to the financial crisis that started in the United States in the course of 2007, and spread over to Europe in the course of 2008. As a result of the financial crisis, several Member States were called upon to support ailing banks. Moreover, in order to prevent their economies from falling into a recession, several Member States also implemented fiscal simile. Both these actions placed a great burden on the financial coffers of the Member States concerned. The deterioration of the budgetary situations in several Member States triggered the start of the debt crisis. Markets lost faith in the capability of Member States to restore their budgetary situations. Peripheral Member States in particular were confronted with a sudden and steep rise of the interest rates and they increasingly faced problems refinancing their debt on the market, which ultimately led to the situation that it became necessary for the European Union and the Member States to intervene.

1.2 Emergency measures taken to combat the crisis

The granting of financial assistance is a complex issue, both politically and legally. Great uncertainty existed as to whether the granting of assistance would actually be in compliance with the "no bail-out" clause laid down in article 125 of the treaty. On one hand, the granting of aid would actually run completely counter to the objective to establish market discipline. On the other, proponents of assistance focus rather on the wording of the provision of article 125, which states that the text of the provision only prohibits the Union and the Member States from being liable for or from assuming the financial commitments of another Member States. In other words, the "no bail-out" clause would only be violated if the Union or the Member States, would stand in a contractual relationship with the creditors of another Member States (example: a relationship giving of a guarantee on the debts of another Member States). However it seems that the EU does not have the option not to help out Member States: as a result of the internal market, the member states are simply too intertwined. When we look at these measures, we can distinguish between the emergency measures taken to combat the crisis on one hand and the more structural solutions proposed to overcome this crisis on the other.

When looking at the *emergency measures,* we can distinguish between, firstly, *financial measures, the emergency funds* created to overcome the crisis, secondly, the *reactions or actions of the European Central Bank,* and thirdly *private sector involvement*.

The first assistance package granted to Greece was €110 billion, which was set up with €80 billion from bilateral loans concluded between Greece and the member states, while the remaining €30 billion came from the International Monetary Fund. Barely a week later, another assistance package was set up in the form of a so-called Emergency Fund. The reason for this was that it had become immediately clear that this Greek loan facility was not enough. This Emergency Fund set up a value of €750 billion with a very complex structure: three pillars – the EU's own resources, the sum of money coming from European Union member states and a commitment from the IMF. Firstly, this partly comes from the European Financial Stability Mechanism (EFSM). This mechanism is a European law that constructs its legal basis in Article 122 of the treaty, which provides for the possibility to grant assistance when member states are facing exceptional circumstances beyond their control. Secondly, it comes in part from the so-called European Financial Stability Facility, which, contrary to the European Financial Stability Mechanism, is not rooted in European treaties. This European

Financial Stability Facility (EFSF) is a special-purpose vehicle based on Luxembourg law, and in which the 17 Euro Member States are shareholders. If a Member State in financial trouble asks for financial assistance to the EFSF, it can grant assistance on the basis of strict conditionality. This means that the member state in question will have to agree to the imposition of austerity measures and will also have to agree to introduce stringent reforms of its economy. Thirdly, the International Monetary Fund committed to a contribution. In total, this created a serious firewall of €750 billion to overcome the euro crisis.

In addition to the financial assistance granted by the EU and its member states, the *European Central Bank has also intervened to combat the crisis* and has taken a number of rather unconventional measures.

One of the measures is the so called *bond-buying program*. The first bond-buying program, whereby the ECB bought bonds of member states in trouble, was called the Securities Markets Program. As a result of the buying of bonds by the ECB on the secondary markets, the interest rates that member states in trouble faced to refinance their debts were significantly decreased. The problem, however, is that this bond buying program is legally questionable as article 123 of the treaty prohibits monetary financing. Strictly legally speaking the bond buying program of the ECB does not contravene this prohibition. The ECB does not intervene or buy its own bonds directly from the member states. It only intervenes on the secondary markets where it buys the bonds from investors. By the same token, it must be admitted that this bond-buying program sits somewhat uncomfortably with the purpose of this prohibition. The fact in itself that this program has the effect of decreasing the interest rates that a number of states have to pay to refinance their debts decrease indicates that the ECB has intervened in the irregular marketplace, which specifically was not the purpose. Besides being legally questionable, there are also political concerns about this bond-buying program. The ECB is supposed to be politically independent, yet by buying these bonds, it undeniably became drawn into the realm of fiscal policy. Aware of these concerns, the ECB drastically reduced this bond-buying program in 2011, but in response in the summer of 2012 to increasing interest rates on Greek, Italian and Spanish bonds, the ECB decided to intervene again. On 6 December 2012, it announced the launch of a new bond buying program, the Outright Monetary Transactions Program. Even the announcement itself had a significant effect as the interest rates on Italian and Spanish bonds decreased immediately.

Thirdly, the *private sector participates* in the rescue operations as growing numbers of member states became reluctant to continue bailing out ailing member states. Furthermore, because more money was now required to actually bail out these member states, increasing pressure was exerted on the private sector to participate as well. The first emergency operation in which the private sector participated was the second assistance package for Greece, because the package only became a reality after the private sector actually agreed to participate: the bond holders of the Greek debt agreed to take a cut of more than 50% of their initial investments. More recently, the involvement of the private sector moved to another level for the assistance operation concerning Cyprus. This time, it was not only the bondholders of Cypriot debt, but also depositors with Cypriot banks with savings of more that €100,000 that had to face losses. With this, it became clear that the crisis in reality left virtually no one unaffected.

1.3 Structural solutions proposed to overcome this crisis

Aside from the emergency measures, it was also necessary to undertake *structural measures* to further improve or strengthen the economic government framework of EMU, and to ensure that similar problems do not recur in the future. One of the most important lessons of this crisis is that there were important shortcomings in the legal setup of EMU. Though no one had foreseen the crisis, the member states and the European Union still reacted relatively quickly by setting up these emergency funds. But these were only temporary and provided little more than an ad hoc solution. So it was necessary to foresee a permanent solution and establish a permanent emergency mechanism, which became known as the *European Stability Mechanism* (ESM).

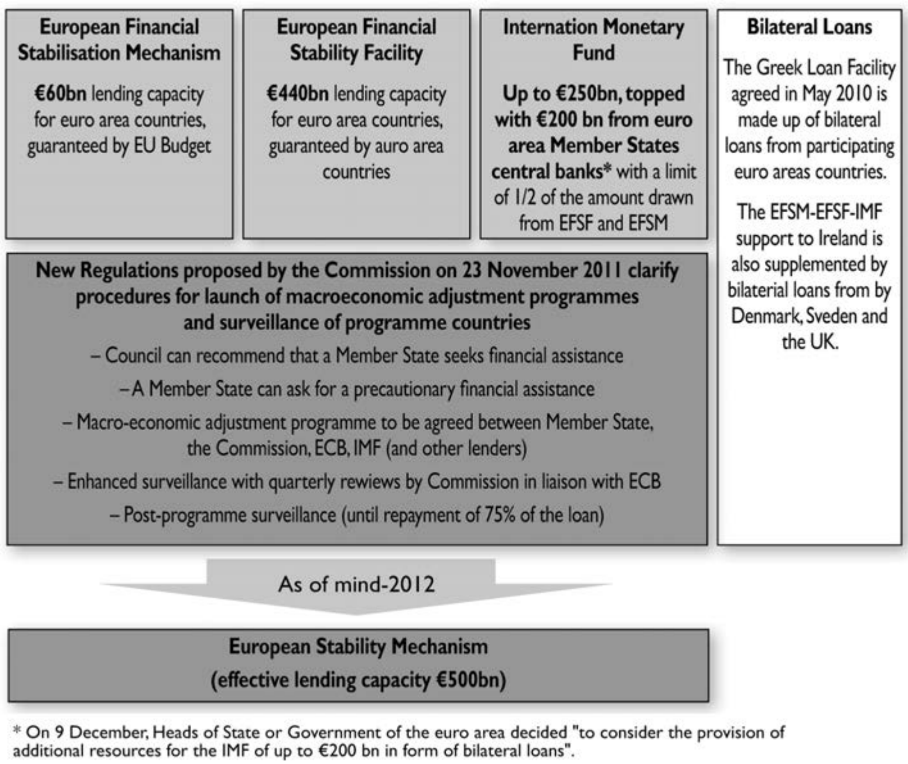


Figure No.3. *Financial Backstops*

The ESM is based on an international treaty concluded by the Euro area member states and based on article 136 of the Treaty. Just like its predecessors of the ESFS emergency fund, ESM works on the basis of strict conditionality. Assistance can be granted only if it is genuinely considered to be indispensable to safeguard the stability of the euro area as a whole. The ESM has authorized capital stock of 700 billion Euros. It has an effective lending capacity of 500 billion Euros. Assistance is effectively granted through loans and through the buying of bonds, both on the primary and the secondary markets, or through the indirect recapitalization of banks, for example. It was considered necessary to change the treaty in order to be able to establish the ESM. However, the creation of such a European permanent emergency or stability mechanism was subject to heavy criticism as some observers feared that the Euro zone would become a real transfer union characterized by significant capital flows from the richer to the poorer countries. Unsurprisingly therefore, the establishment of the ESM was challenged before national and European courts. However, both the German constitutional court, the Bundesverfassungsgericht and the European Court of Justice in the case of Pringle, ultimately gave the green light to the establishment of the ESM, thereby confirming the power of the member states to establish a permanent assistance mechanism.

However, the creation of this permanent assistance mechanism has been a considerable change in the legal set-up of Economic and Monetary Union. The EU has moved from a system based on the so-called reliance on the "no bail-out" clause to a system where assistance can now be granted to a member state in need provided that this is considered indispensable to the stability of the entire Euro area. All in all, there is more room for assistance now at the European level, but this room for assistance has come at a price: the Member States have had to accept more supervision and control on their budgets and on their economic processes. One of the most important reforms in this regard is the so-called *European Semester.* The European Semester is a yearly cycle of economic policy coordination, whereby the European Commission analyses the national programs of economic and structural reform and makes recommendations to the member states. In the second phase of the annual cycle, known as the National Semester, Member States implement the policies they have agreed.

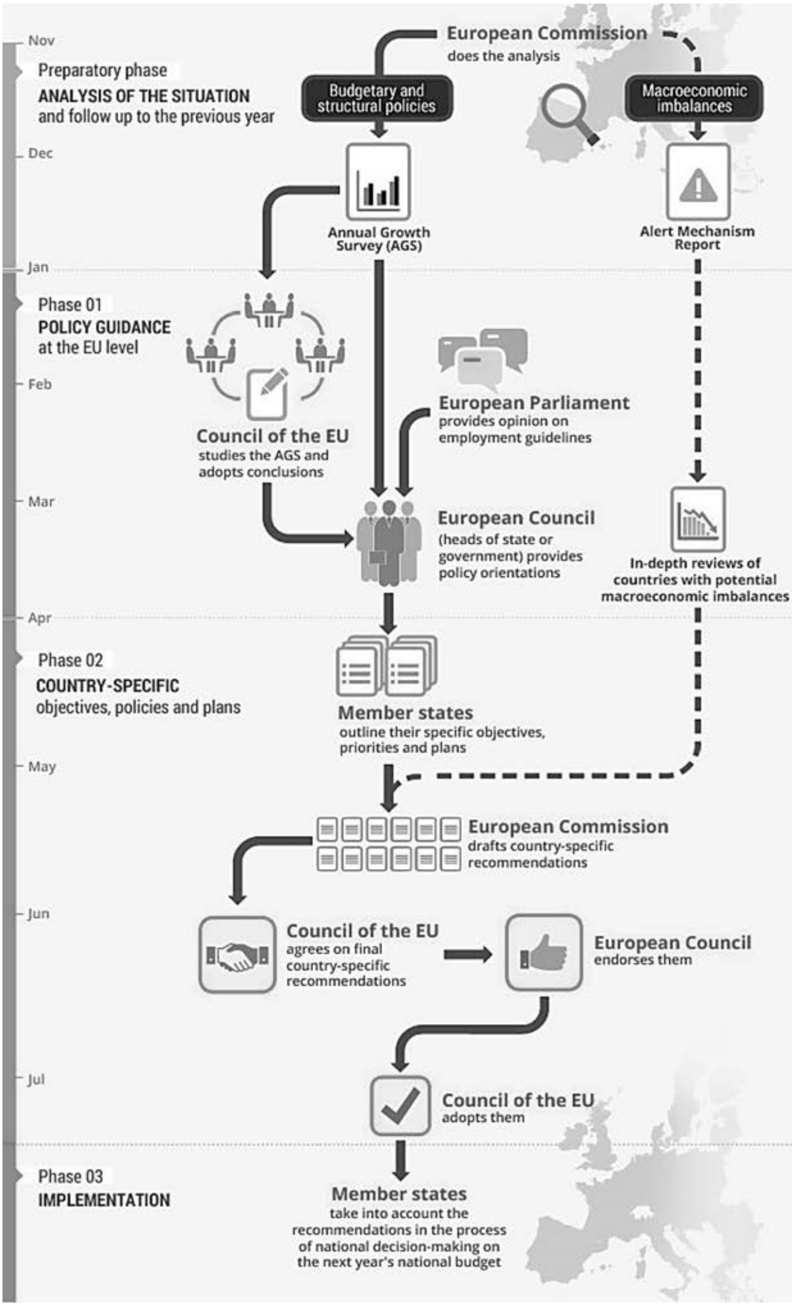


Figure No.4. *Who does what in the European Semester?**
Source: Council of the European Union

The European Semester covers three blocks of economic policy coordination:
– structural reforms, focusing on promoting growth and employment in line with the Europe 2020 strategy;
– fiscal policies, in order to ensure sustainability of public finances in line with the Stability and Growth Pact;
– prevention of excessive macroeconomic imbalances.

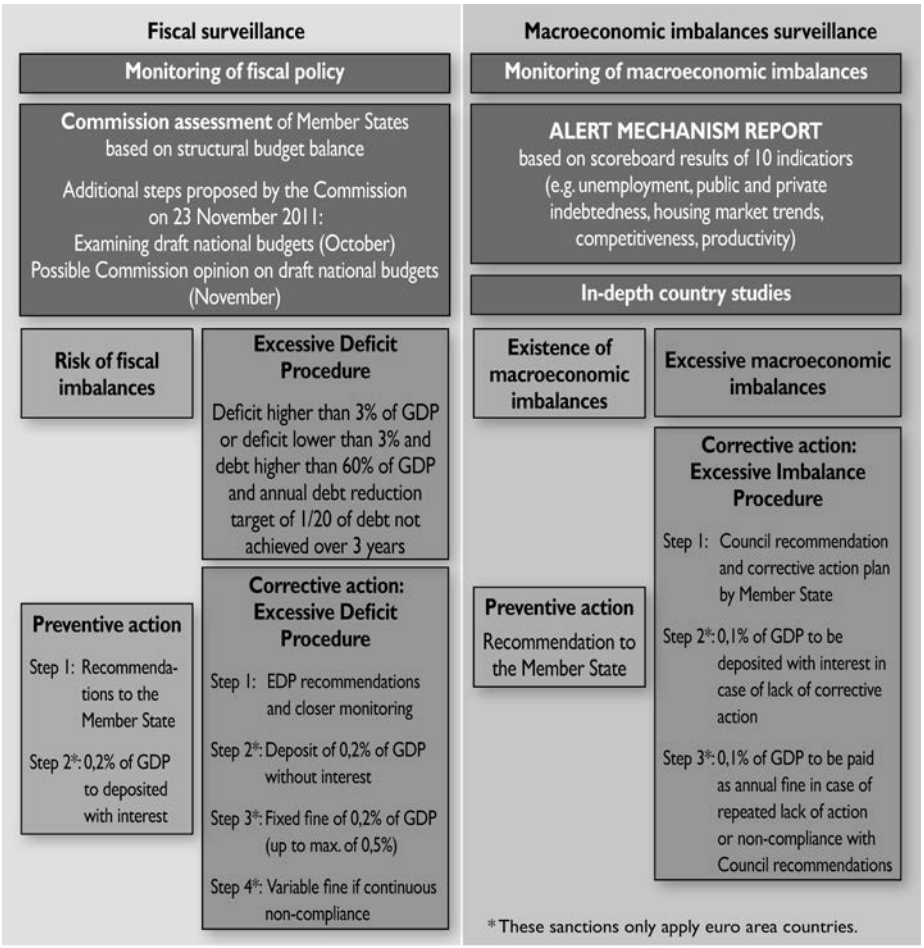


Figure No.5. *European economic governance (in effect from 13 Dec. 2011)*[7]

The cycle starts in November each year with the Commission's Annual Growth Survey (general economic priorities for the EU), which provides Member States with policy guidance for the following year. Country-specific recommendations published in spring offer Member States tailored advice on deeper structural reforms, which often take more than one year to complete. Euro area budget monitoring intensifies towards the end of the year, with Member States submitting draft budgetary plans, which are assessed by the Commission and discussed by euro area finance ministers. The Commission also reviews the fiscal stance in the euro area as a whole. The Commission monitors implementation of priorities and reforms several times a year, with a focus on the euro area and Member States with fiscal or financial problems.

The new rules (introduced through the Six Pack, the Two Pack and the Treaty on Stability, Coordination and Governance) are grounded in the European Semester, the EU's policy-making calendar. This integrated system ensures that there are clearer rules, better coordination of national policies throughout the year, regular follow-up and swifter sanctions for breaching the rules.

Rules	Surveillance	Enforcement
Deficit below 3% of GDP **Debt below 60% of GDP or sufficiently diminishing towards 60% of GDP** **MS are given strict deadlines to get into line**	Ongoing monitoring by COM and Council based on reporting by MS. Mission to MS when necessary.	Preventive phase, interest-bearing deposit 0,2% of GDP Corrective phase: 3-step sanctions process in case of non-compliance: 1. Non-interest bearing deposit at the opening of the excessive deficit procedure (0,2% GDP) 2. Fixed fine if non-compliance with recommendations to correct (0,2% GDP) 3. Variable fine if continuous non-compliance with recommendations to correct (0,2% GDP+1/10th of the distance)
Common budgetary timelines. National rule on structural balanced budgets for MS written into binding legislation, preferably of constitutional nature **Draft budgetary plans to be sent to COM as same time as to national parliaments. COM can request new draft in case of serious non-compliance with the rules** **Independent fiscal councils monitoring implementation of the rule and independent forecasts mandatory for budgetary policymaking**	Enhanced monitoring for euro area MS and regular reporting for euro area MS under EDP Reinforced surveillance for euro area MS under macro-economic (EFSF, ESM) adjustment programme or at serious risk of financial instability	As above. Moreover: COM ensures that MS transpose the structural balanced budgets rule on time and correctly, with option of infringement proceedings through European Court of Justice, national fiscal councils oversee compliance of budgets with this rule

Rules	Surveillance	Enforcement
Golden rule on structural balanced budgets for MS written into national legal system at constitutional or equivalent level, with an automatic correction mechanism that shall triggered in the event of deviation. **MS in Excessive Deficit Procedure submit to COM and Council for endorsement an Economic Partnership Programme detailing the necessary structural reforms to ensure an effectively durable correction of excessive deficits.** **Ex ante reporting by MS of their national debt issuance plans.**	The implementation of the Economic Partnership Programme, and the yearly budgetary plans consistent with it, will be monitored by the COM and the Council	COM ensures that MS transpose golden rule on time and correctly, with option of infringement proceedings through European Court of Justice; national constitutional courts oversee compliance of budgets with golden rule. Automaticity of sanctions; Euro area MS commit to semi-automatic approval of COM recommendations to place a country under EDP

Table No.1. *Fiscal rules, surveillance and enforcement in the euro area*

Source: author's compilation

Linked to the European Semester, the so called Six Pack[8] was one of the most important legal reforms introduced. This set of secondary legislation tightens budgetary discipline and creates a system to prevent and detect all our micro-economic imbalances. The most important aspect of the Six Pack is the substantial change in the sanctions regime. One of the problems with the Stability and Growth Pact is that it was politicized and therefore, in practice, relatively toothless. This has now changed with the introduction of the so-called reversed qualified majority voting system. Under the old system, the commission could only propose the imposition of a sanction and it was the council which had to propose or support this proposal with qualified majority voting to actually put the sanction in place. In the new regime, the commission proposes a sanction that will come into effect unless the council votes against it in a qualified majority ballet within ten days.

Although not all economic policy reforms are laid down in union law: 25 member states (all member states apart from the UK and Czech Republic) decided to conclude a new inter-governmental treaty to further tighten budgetary discipline and to strengthen economic governance – the **Treaty on the Stability, Coordination and Governance in the Economic and Monetary Union**.[9]

One of the most important, rules of this treaty is the so called *golden budgetary rule.*[10] It is a new budget rule, a limit on the "structural deficit". This requires the government to adjust the budget deficit for changes in the business cycle. When the economy is weak, as it is now, the structural deficit will be lower than the actual deficit. The structural deficit accounts for the fact that a recession depresses government revenue (the unemployed pay less tax) and raises spending (unemployment benefits and other social services cost money). The governments agreed to limit structural deficits to just 0.5% of gross domestic product. Countries with debts comfortably below the 60-percent-of-GDP EU threshold will get more leeway, up to 1.0 percent of GDP for the structural deficit.

This rule requires from the member states to introduce in their national constitution or in a rule of equivalent nature an obligation to have a budget in balance or alternatively in surplus. This golden rule undeniably constitutes a new approach to further strengthening budgetary discipline of the member states. This obligation to avoid excessive deficits is no longer laid down only in European law, but in the future also in national, constitutional law, which could very well have the result of further legitimizing the budgetary rules and strengthens the incentives of the member states to have a balanced budget.

There is a link between the European semester and the 'Europe 2020' medium-term economic strategy launched in 2010. This is designed to address the shortcomings of the European growth model and create the conditions for smart, sustainable and inclusive growth. Five headline targets[11] have been set for the EU to achieve by the end of 2020. These cover employment; research and development; climate/energy; education; social inclusion and poverty reduction. They give an overall view of where the EU should be on key parameters by 2020 and are translated into national targets so that each Member State can check its own progress towards these goals.

To ensure that member states are organizing reforms in line with the EU2020 objectives, the Commission put in place a new mechanism of 'ex-ante coordination', which would compel member states to submit detailed information about a reform they are about to undertake. The Commission will provide the Council with an assessment of the reform's effectiveness and of its potential spill-over effects on the functioning of the euro area. As such, this mechanism is probably useful from a collective point of view, but the prospect of the EU's interference in national policy-making could even act as a deterrent. Additionally to these, there is also the so called 'conditionality clause' that has been inserted into the 2014-2020 Multiannual Financial Framework. Member states will have to enter 'partnership agreements' with the Commission based on a new 'Common Strategic Framework' merging structural and cohesion funds, the European Agricultural Fund for Rural Development (EAFRD) and the European Maritime and Fisheries Fund (EMFF). The Commission will have the possibility to 'request a member state to review and propose amendments to its Partnership Agreement and the relevant programs, where this is necessary to support the implementation of relevant Council recommendations'. This would cover all recommendations under the economic and employment guidelines, the Stability and Growth Pact, the Macroeconomic Imbalance Procedure, and financial assistance from the European Stability Mechanism. In cases where the member state in question does not take sufficient action to abide by the recommendations, payments could be partly or totally suspended.

Whether the stick of EU payments suspension or reward of additional support will, indeed, help improve the record of reforms is disputed.

We can conclude that the EU has created an additional instrument for preventive surveillance of the economic and fiscal policies of its member states. The European Semester synchronized the calendars of economic and fiscal policy reporting and evaluation at the EU level and changed the coordination of national economic policies from ex-post to ex-ante. In connection with this, where recommendations are not acted on within the given time-frame, policy warnings can be issued. There is also an option for enforcement through incentives and sanctions in the case of excessive macroeconomic and budgetary imbalances. The European semester could additionally spur several countries to step up their consolidation efforts, while greater transparency going forward may give reason to hope that the member states will have a better chance to demonstrate the consolidation of their finances.

Three years of practice show that the European Commission attempts to strike a balance between fiscal consolidation, growth and investment, but that country-specific recommendations are more narrowly focused on the correction of fiscal and macroeconomic imbalances. Member states, nevertheless, uphold considerable leeway in the framing of fiscal plans and reform programmes. Moreover, recommendations are not abruptly imposed from above; they are often negotiated months ahead with national governments and sometimes involve social partners and national parliaments.

2. The Hungarian Case

In 2008, when the financial crisis began to intensify, Hungary was in the weakest position of all Central and Eastern European countries.[12] What were the reasons for this situation? Hungary's public finances deteriorated significantly in the period 2000-2006. Plagued both by intertemporal inconsistency and common-pool problems, the country's fiscal position was mainly dominated by the electoral cycle rather than by economic fluctuations. This is illustrated by the fact that state deficits have risen sharply at each of the regularly scheduled general elections. The logic of the political process sets the incentives so, that the governess of a socially optimal supply (corresponding to a given budget deficit) of public goods at the expense of a widening deficit deviate to increase their chances of re-election. Crisis prevention and avoidance of excessive expansion of debt due to political election cycles ("fiscal alcoholism" according to Kopits[13]) should increase transparency, so an independent fiscal policy advisory body should be created.[14]

From the beginning of the decade, up to the beginning of the global financial crisis, Hungary benefited from generous capital inflows, which could cover its external imbalances.[15] The so-called "Great Moderation[16]", with abundant global liquidity, easy access to the financial markets – particularly the accession to the EU was in sight – has facilitated the emergence of these imbalances.

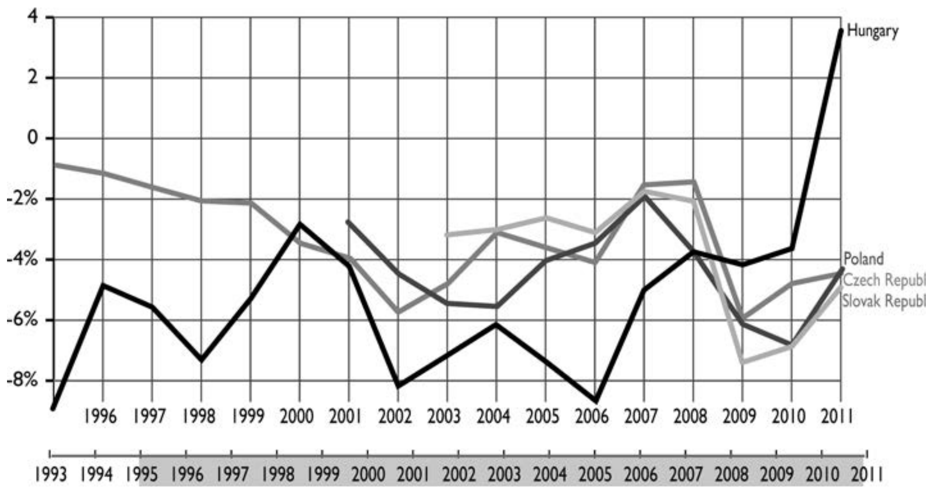


Figure No.7. *Budget deficit in the V4 countries*

By 2006, the general state deficit reached nearly 10 percent of the GDP[17], which at that time was the highest value among all EU member states.

At the end of 2006, the government – after a series of broken promises of fiscal adjustment – introduced to the EU-authorities a further convergence program.[18] The onset of the financial crisis in the U.S. and Western Europe led to Hungary facing the rapid loss of investors' confidence from 2007 onwards.

For this reason, the Hungarian authorities began negotiations for a standby loan with the IMF and EU in October 2008.

Public debt rose from a low of around 50% of the GDP in 2001 to almost 80% by end 2009.

The development of Hungarian public debt can be divided into three different periods[19]:

- From a very high level (90%) in the mid 90's, followed years thanks to the acceleration of economic growth and tighter fiscal policy and the significant proportion of the privatization proceeds, which were used to reduce debt, a continuous decrease up to 2001 (52.7%) .
- After 2001, due to a significant worsening of the primary budget deficit and the high real interest rate burden, public debt rose to 65.9% by 2006. The rapid economic growth of 4% and the appreciation of the real exchange rate slowed the growth of the debt however.
- In 2006, it became clear that the high primary budget deficit was not sustainable in the short term. For this reason, there were significant adjustments to the state budget in several steps. Thanks to these measures, the Hungarian budget already showed a surplus in 2008. The simultaneous onset of the economic stagnation and the devaluation of the forint due to the international financial crisis, however, led the public debt increase by 15%.

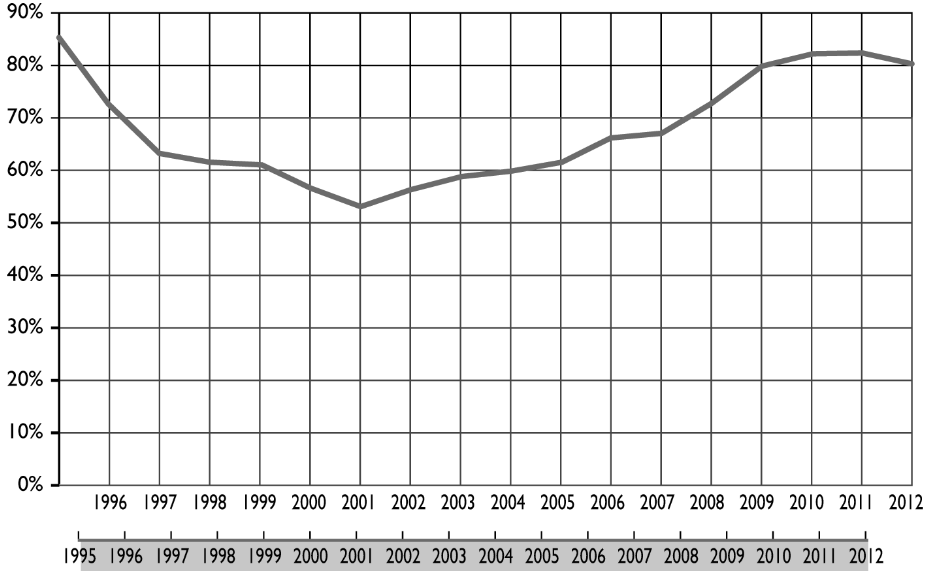


Figure No.8. *Hungary's public debt*

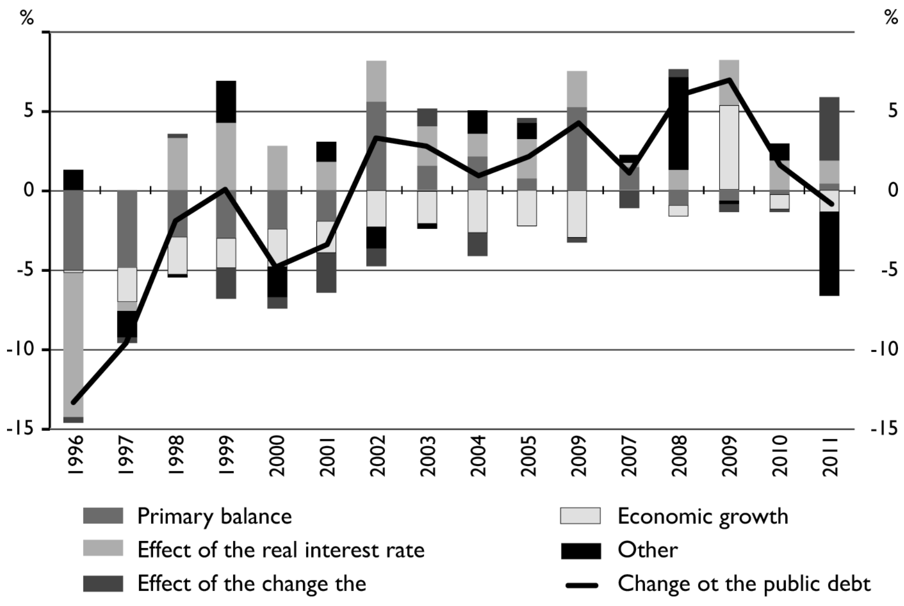


Figure No.9. *The decomposition of the change of gross public debt*[20]

During this time, the government has pursued a distinctly pro-cyclical fiscal policy. While many other emerging economies in Latin America and Central Europe transposed rule-based macroeconomic policy framework and the Asian countries increased their foreign exchange reserve positions, Hungary pursued a policy of fiscal expansion until 2006.[21]

In this context, it must be noted that the credit boom in Hungary was mainly due to the demand of the private sector. There was excessive borrowing due to the discredited policies of the Government, the National Bank, banking supervision and various commercial banks. The debt burden has increased significantly due to the weakening of the forint-euro exchange rates and the strengthening of the Swiss franc. As the majority of foreign currency loans are denominated in Swiss francs in Hungary, this development led to a particularly heavy burden on indebted households.[22] The serious political (and social) situation could be only brought more or less under control by the intervention of the state. The years of imbalanced development of the private sector cannot simply be undone – not even by drastic government measures.

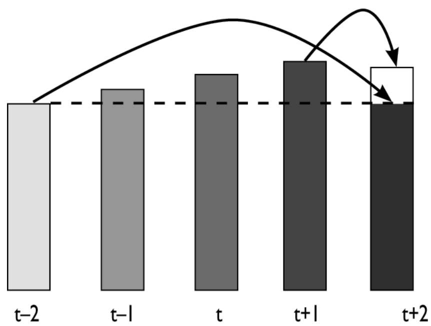
As a consequence of these developments, Hungary was forced with the advent of the global financial crisis to undertake radical fiscal consolidation accompanied by the tightening of its monetary policy.

If in a country such as Hungary, the state administration fails to function efficiently and sustainably for various reasons, the introduction of a debt ceiling can be an effective „helping tool". The debt ceiling is described as the constitutional self-restraint, through which the state takes off the opportunities of their governments and parliaments to borrow excessively and to impose the obligation to cut back present excessive indebtedness.[23]

Through this indirectly, regular or excessive government budget deficits are being counteracted, as these are the main cause of excessive government debt. The concrete form of debt brakes, their penalty reinforcement and their effectiveness are different in different countries.[24]

Against the backdrop of the increasingly precarious fiscal position of Hungary (dynamic growth of public debt, loss of reputation in the financial markets, declining transparency of government budgetary policy and slowing economic dynamics), the Hungarian Parliament passed the so-called „fiscal responsibility law[25]" along with other legislative changes in 2008. The main features of this Act, which also changed the rules of budgeting, included a number of fiscal rules, procedures and transparency standards. In addition, the Act foresaw the establishment of a fiscal council, with technical support provided by a secretariat but without its own decision-making powers.

With this package of legislation, Hungary introduced the so-called real-debt-rule, which prescribes a two-step algorithm for three years in advance to calculate an upper limit on the discretionary primary deficit that will serve as a binding operational objective. The debt rule limits the stock of central government liabilities in real terms, i.e. that the stock of debt cannot grow faster than inflation. To this effect, starting three years in advance, the rule prescribes a sequential approach to deriving a ceiling on the discretionary primary deficit, which serves as the binding operational target. This should be consistent with the ex-ante political objective, namely the limitation of debt. Any excess above the debt limit due to an excess in the discretionary deficit must be corrected within three years. In summary, the ratio of public debt to GDP is envisaged to decline over time proportionally to real GDP growth upon compliance with the rule.



$$\frac{D_t}{Y_t} \leq \frac{(1+\pi_{t+1})}{(1+\pi_{t+1})(1+\rho_{t+1})}\,\frac{D_t}{Y_t} = \frac{1}{(1+\rho_{t+1})}\,\frac{D_t}{Y_t}$$

Figure No.10. *Operation of the Real Debt Rule*
Source: author's compilation

In February 2009, the independent Fiscal Council was elected by Parliament.[26] This consisted of three members[27] and was supported by its own research team. It had its own budget and was only accountable to the Parliament. The range of tasks included the drawing up of macroeconomic development forecasts and analysis of draft budgets and laws relevant to fiscal policy.

As a result of the critical stance of the Fiscal Council, the new Hungarian government saw itself encouraged however to adopt the dissolution of the Council.[28] As of early 2011, a new Fiscal Council had been created without a secretariat, the task of which was limited to reviewing the draft budget.[28]

Under the new constitution[30], which entered into force on the 1 January 2012, a new form of debt limit was anchored in Hungary (Art. 36-37 of the Constitution). In this Act, an absolute deficit limit was introduced. If the debt ratio stands at 50 percent of the GDP, the Parliament cannot adopt a budget and cannot take obligations (adopt no law, not borrow and not enter into any financial liabilities) as a consequence of which the national debt would increase.[31] If national debt exceeds this level, the government must propose measures to reduce the debt. As mentioned previously, current Hungarian state debt is more than 80 percent of the GDP.

A number of governments have introduced rules to fight "deficit bias" over the past two decades. The most widespread rules set simple numerical limits on the deficit, debt, spending and revenues. The question of whether fiscal rules are effective in stabilizing public debt is yet to be answered definitively.[32] Such rules have often been disappointing. There are several reasons for this. For example, numerical rules may produce a situation where, due to the logic of least resistance, investment spending is cut, thereby limiting the long-term growth prospects of the economy. In addition, the pressure to comply with a rule might lead to "creative accounting" that glosses over the budget. The main problem, however, is that rules can easily be circumvented. There are always situations where it may be opportune for the Government to override or ignore a rule.[33] One example is the European Stability and Growth Pact[34], the debt and deficit ceilings of which were exceeded in Europe on more than one occasion without any appropriate sanction being imposed.

Another example is the U.S. Gramm-Rudman-Hollings Deficit Reduction Act[35], which claimed explicit deficit targets over the following five years. Although this limit should have helped the legislature – in terms of a debt limit – to keep the state budget under control[36], it has in reality simply been raised whenever it became relevant.[37]

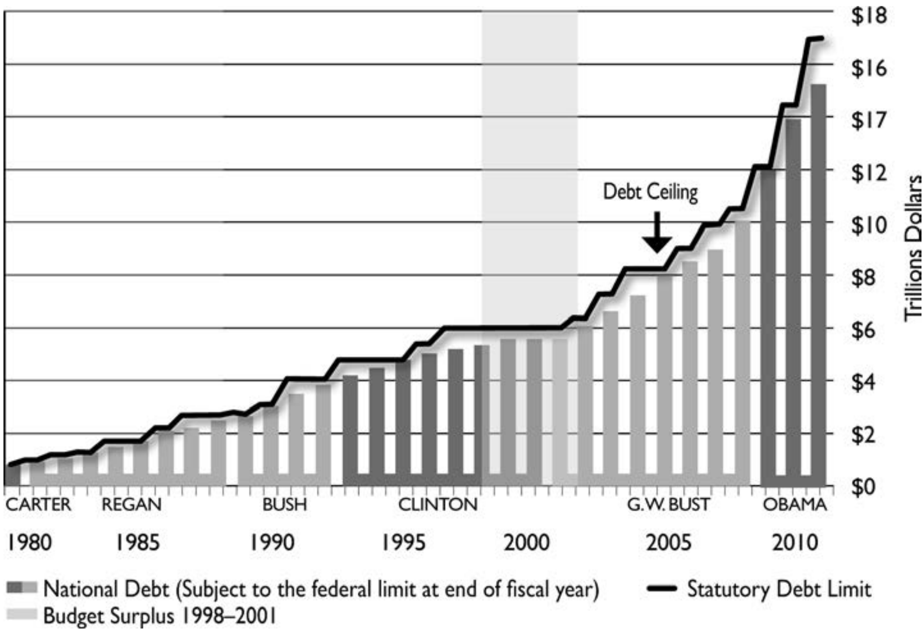


Figure No.11. *30 years of bipartisan debt ceiling raises*

However, until the government spends more than it earns, it is necessary to make up the difference by borrowing money.

With its new Constitution, Hungary has withdrawn the right of the Constitutional Court to audit budget-related laws. If the debt is greater than half the country's total gross domestic product, the Constitutional Court may not examine the constitutionality of legislation on the budget in the context of fundamental rights. The exceptions are issues relating to life and human dignity, the right to private life, freedom of thought, conscience and religion, and the arbitrary deprivation of nationality.[38]

The budget rule introduced in the Constitution was supplemented by a debt formula regulated by the so-called stability act[39], which shall, however, only come into force for the budget planning 2016. According to the formula of the stability act, the planned public debt – calculated in HUF – shall be defined in the Budgetary Act such that its growth over the previous year does not exceed half the difference between expected inflation and expected real GDP.[40]

Several problems arise in connection with the debt formula: on one hand, the rule sometimes calls for a pro-cyclical fiscal policy, while, on the other, it could also reduce the anti-inflation commitment of the government.

The debt formula considers only the economic growth, not the state of the economic cycle. But it might happen that the formula allows for debt increase when the output gap is positive and the economic growth higher is than the potential.

However, the constitutional compulsion for debt reduction will develop its effect only for the budget year 2016, which means a questionable postponement of the implementation of the constitutional provisions. For the creation of budgets until 2016, the *convergence criteria* agreed with the European Union continue to apply. However, targets of the convergence program set for the reduction of the budget deficit and state debt have not been met by Hungary. Still the country faces no legal consequences for this failing.

According to statements[41], the short-term goal of the government is to escape the debt trap, for which borderline legal actions have also been taken.

Article 44 of the Constitution provides for the creation of the new Fiscal Council to review the state budget. This is composed of three members. The President of the Fiscal Council is appointed by the President of Hungary for six years. The other two members are the President of the Hungarian National Bank, who, in accordance with Article 9, is also appointed by the President of the State and must be confirmed by a government official and the President of the State Audit Office, who in turn is elected by Parliament for 12 years in accordance with Article 43 of the Constitution. The Fiscal Council inspects whether the budget complies with the requirements of the debt brake, and it must give its consent to it. Without its consent, no budget can be adopted. If the Parliament does not adopt a budget for the given year by 31 March each year, the President of the State may dissolve the Parliament and announce new elections (Article 3, paragraph 3). Thus the Budget Council appointed for nine years is granted the right to veto the budget law in certain circumstances.

According to a recommendation by the European Council, the Fiscal Council may be allowed to express its opinion not only on budget law, but also on other laws that only indirectly affect the budget, such as tax laws. This extension of its competencies is to be regarded as a concession to the observers of the ECB and the IMF, since the recommendations of the Council have no binding character.

Since its accession to the EU, Hungary has been subject to the so-called excessive deficit procedure.[42] As a final step in this process, the Council determined on 24 January 2012[43] that Hungary had not taken effective action on the recommendations of the Council within the period stipulated therein. As a result, the Council decided on 13 March 2012 to suspend a portion[44] of the funds scheduled for Hungary under the Cohesion Fund with effect from 1 January 2013.

At the same time, the Council made a recommendation to Hungary and set 22 June 2012 or a later date[45] as a deadline to take effective action and show how the termination of the excessive deficit could be achieved. In particular, Hungary was requested to perform, on the basis of a further specification and implementation of structural consolidation measures, an additional consolidation effort of at least ½% of GDP in order to ensure the achievement of the deficit target of 2.5% of GDP for the year 2012, to use any unexpected revenues to improve the overall balance, to take necessary additional structural measures to ensure that the deficit in 2013 would remain well below the reference value of 3% of GDP, and to set up adequate reserves in the next budgets. At the same time, the Council stressed that the fiscal adjustment should contribute to bringing the government gross debt ratio onto a downward path, and that this would have to be underpinned by the proposed improvements to the fiscal control framework.

On 23 April 2012, the Hungarian authorities submitted the annual update to their convergence program[46] and outlined their budget strategy for ensuring sustainable correction of the excessive deficit by the deadline in 2012. The official deficit targets and the planned consolidation effort are in accordance with the recommendations of the Council of 13 March 2012. With regard to the reform of fiscal political governance, the authorities have announced that they will present to Parliament the necessary proposals for amendments in spring.

On the basis of publicly available information, the Commission concluded in its communication of 30 May 2012[47] that Hungary has taken measures to ensure adequate progress towards the correction of the excessive deficit. These measures, amounting to around 0.7% of GDP in gross terms, include: (i) the incorporation of the 2013 cut in the expenditures of selected budgetary institutions into the 2014 budget, (ii) a nominal freeze at their 2013 level of selected expenditures of the budgetary institutions in the central budgetary sub-sector, (iii) a nominal freeze of selected social cash allowances from 2013 to 2014, and (iv) the suspension of selected public investment projects unless they can be financed from the sale of non-financial state assets.

In light of the evaluation, the Commission has come to the view that there were no further steps needed in the excessive deficit procedure against Hungary. Overall, Hungary had taken, in response to the recommendation of the Council of 13 March 2012, the necessary measures to correct the excessive deficit within the deadline set by the Council. Therefore, the implementation decision 2012/156/EU for partial suspension of commitments from the Cohesion Fund should be repealed.

According to the Commission's updated assessment and taking into account the additional savings measures adopted on 13 May 2013, the Council of the European Union having regard to the recommendation from the European Commission decided to *abrogate the excessive deficit procedure (EDP) against Hungary.*[48]

As in 2013, the budget for 2014 would also be tight, with expectations of a budget deficit of 2.9%, 2% GDP growth and 2.4% inflation. To securely hold the budget deficit below the reference value of 3% of GDP, rigorous implementation is necessary. The most important question is how realistic the budget figures are.

Conclusion

The sustainability of public finances is a key condition for the competitiveness of an economy, as well as for ensuring the social welfare system and therefore for social cohesion. Good fiscal policy prevents the state from getting into a situation where it is no longer able to approach its tasks correctly. This assumes that the debt in normal times is returned to a level that ensures the full operation of government in times of crisis. Sustainable public finances are an important condition for price stability in the longer term. Probably most important criterion for stability control is the broad support from politicians and the public. If countries with debt problems do not succeed in building up a broadly based culture of stability that takes government budget constraints seriously, then efforts to establish sustainable fiscal policy are doomed to fail sooner or later.

Recent years have seen several measures to combat the crisis: emergency measures and structural solutions to combat the crisis, some of a political nature and others of a legal nature. Some measures have been taken within the formal treaty framework, while others are outside this framework. Some have been are adopted by only the Euro member states, and others have been adopted by 23, 25 or even all 27 member states of the European Union. All in all a great variety of measures on one hand leads to increased complexity, which brings with it growing fragmentation and is almost bound to lead to the disintegration of the Euro area. On the other hand, this increased complexity also demonstrates increased flexibility and has to be seized upon as an opportunity. An opportunity, for example, for further and enhanced cooperation, which will allow certain member states to move forward. This flexibility is seen as an inherent necessity by these states and also the broader European Union.

Closer coordination of economic and social policies seems to be the only possible option for member states willing to sustain the common currency but reluctant to transfer fiscal resources and discretionary powers to EU institutions. Perhaps the greatest challenge faced by the EU is to go further down the route of national self-limitation and collective discipline. The politics of coordination requires an enriched dialogue, both vertically – between EU and national institutions – and horizontally among national leaders. National parliaments and stakeholders need to be engaged much more in EU governance than is the case today.

However, it seems as if the European integration trade will further proceed in Europe's most difficult hour. Member States have decided to grant each other more financial assistance, in return for which more integration will follow, more coordination of the economic policies of the member states, more supervision, surveillance and enforcement over their budgetary policies. It is my hope that the Euro zone and the entire European Union has a good chance of getting out of these crises and be better than before.

Questions

1. Why is sustainability important for public budgeting?
2. What is the EU doing to ensure that future budgets do not explode and that they are focused on real priorities?
3. How is the European Semester working?
4. What are the major differences between Hungary and the other EU Member States in terms of budgeting?
5. What are the different approaches of the fiscal rules?

Glossary

Automatic stabilizers: features of the tax and spending regime, which react automatically to the economic cycle and reduce its fluctuations. As a result, the budget balance in per cent of GDP tends to improve in years of high growth, and deteriorate during economic slowdowns.

Budget balance: The balance between total public expenditure and revenue in a specific year, with a positive balance indicating a surplus and a negative balance indicating a deficit. For the monitoring of Member State budgetary positions, the EU uses general government aggregates. See also structural budget balance.

Code of conduct: Policy document setting down the specifications on the implementation of the Stability and Growth Pact and the format and content of the stability and convergence programmes.

Convergence programmes: Medium-term budgetary and monetary strategies presented by Member States that have not yet adopted the euro. They are updated annually, according to the provisions of the Stability and Growth Pact. See also stability programmes.

Cyclical component of budget balance: That part of the change in the budget balance that follows automatically from the cyclical conditions of the economy, due to the reaction of public revenue and expenditure to changes in the output gap. See structural budget balance.

Cyclically-adjusted budget balance: See structural budget balance.

Discretionary fiscal policy: Change in the budget balance and in its components under the control of government. It is usually measured as the residual of the change in the balance after the exclusion of the budgetary impact of automatic stabilisers.

European semester: Yearly cycle of economic policy coordination, which takes place over the first six months of the year. The European Commission undertakes a detailed analysis of EU Member States' programmes of economic and structural policies and the European Council and the Council of Ministers provide policy advice before Member States finalise their draft budgets.

Excessive deficit: Is used to refer both to situations where either the deficit or the debt is above the Maastricht reference values (and debt is not diminishing at a satisfactory pace), in cases where the Excessive Deficit Procedure is the same whatever the cause of the breach.

Excessive Deficit Procedure (EDP): A procedure according to which the Commission and the Council monitor the development of national budget balances and public debt in order to assess and/or correct the risk of an excessive deficit in each Member State. Its application has been further clarified in the Stability and Growth Pact. See also stability programmes, Stability and Growth Pact and excessive deficit.

Expenditure rules: A subset of fiscal rules that target (a subset of) public expenditure.

Fiscal consolidation: An improvement in the budget balance through measures of discretionary fiscal policy, either specified by the amount of the improvement or the period over which the improvement continues.

Fiscal framework: Comprises all arrangements, procedures, rules and institutions that underlie the conduct of budgetary policies of general government. The term fiscal framework can be used interchangeably with fiscal governance.

Fiscal governance: Comprises all arrangements, procedures, rules and institutions that underlie the conduct of budgetary policies of general government. The term fiscal governance can be used interchangeably with fiscal framework.

(Numerical) Fiscal rule: A permanent constraint on fiscal policy, expressed in terms of a summary indicator of fiscal performance, such as the government budget deficit, borrowing, debt, or a major component thereof. See also expenditure rules.

Fiscal sustainability: A combination of budget deficits and debt that ensure that the latter does not grow without bound. While conceptually intuitive, an agreed operational definition of sustainability has proven difficult to achieve

General government: As used by the EU in its process of budgetary surveillance under the Stability and Growth Pact and the excessive deficit procedure, the general government sector covers national government, regional and local government, as well as social security funds. Public enterprises are excluded, as are transfers to and from the EU Budget.

Maastricht reference values for public debt and deficits: Respectively, a 60 % general government debt-to-GDP ratio and a 3% general government deficit-to-GDP ratio. These thresholds are defined in a protocol to the Maastricht Treaty on European Union. See also Excessive Deficit Procedure.

Medium-term budgetary framework: An institutional fiscal device that lets policy-makers extend the horizon for fiscal policy making beyond the annual budgetary calendar (typically 3-5 years). Targets can be adjusted under medium-term budgetary frameworks (MTBF) either on an annual basis (flexible frameworks) or only at the end of the MTBF horizon (fixed frameworks).

Medium-term budgetary objective (MTO): According to the reformed Stability and Growth Pact, stability programmes and convergence programmes present a medium-term objective for the budgetary position. It is country-specific to take into account the diversity of economic and budgetary positions and developments as well as of fiscal risks to the sustainability of public finances, and is defined in structural terms (see structural balance).

Minimum benchmarks: The lowest value of the structural budget balance that provides a safety margin against the risk of breaching the Maastricht reference value for the deficit during normal cyclical fluctuations. The minimum benchmarks are estimated by the European Commission. They do not cater for other risks such as unexpected budgetary developments and interest rate shocks. They are a lower bound for the medium-term budgetary objectives (MTO).

One-off and temporary measures: Government transactions having a transitory budgetary effect that does not lead to a sustained change in the budgetary position. See also structural balance.

Output gap: The difference between actual output (i.e. GDP) and estimated potential output at any particular point in time. See also cyclical component of budget balance.

Potential GDP: The level of real GDP in a given year that is consistent with a stable rate of inflation. If actual GDP rises above its potential level, then constraints on capacity begin to bind and inflationary pressures build; if GDP falls below potential, then resources are lying idle and inflationary pressures abate. See also output gap.

Public debt: Consolidated gross debt for the general government sector. It includes the total nominal value of all debt owed by public institutions in the Member State, except that part of the debt which is owed to other public institutions in the same Member State.

Significant divergence/deviation: A sizeable excess of the budget balance over the targets laid out in the stability or convergence programmes, as defined in the amended Regulation 1466/97 and been detailed in the code of conduct. It triggers the warning procedure of the Stability and Growth Pact.

Stability and Growth Pact (SGP): Approved in 1997 and reformed in 2005 and 2011, the SGP clarifies the provisions of the Maastricht Treaty regarding the surveillance of Member State budgetary policies and the monitoring of budget deficits during the third phase of EMU. The SGP consists of two Council Regulations setting out legally binding provisions to be followed by the European Institutions and the Member States and two Resolutions of the European Council in Amsterdam (June 1997). See also Excessive Deficit Procedure.

Stability programmes: Medium-term budgetary strategies presented by those Member States that have already adopted the euro. They are updated annually, according to the provisions of the Stability and Growth Pact. See also convergence programmes.

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Endnotes

1 General government debt is defined as consolidated gross debt in the entire general government sector that is outstanding at the end of the quarter (at nominal value). The general government sector comprises central government, state government, local government, and social security funds. The debt is measured as a percentage of GDP.

2 The degree to which an asset or security can be bought or sold in the market without affecting the asset's price.

3 The ability to meet its long-term financial obligations, the degree to which the current assets of an individual or entity exceed the current liabilities of that individual or entity (Zietlow 2007, p. 59)

4 Source: European Commission

5 rationality trap: the disintegration between what is rational and reasonable for the single individual and what is reasonable for all of the individuals./Christian-Uwe Behrens, Makroökonomie im Studium für angehende Betriebswirte, Diskussionsbeitrag Nr. 7. Wilhelmshaven 2000/

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7 Source: European Commission

8 Known as the Six Pack, because it consists of five regulations and one directive.

9 Entered into force on the 1 January, 2013

10 The UK is one of the few governments that officially targets a structural deficit. The "Golden Rule" was adopted by the then Chancellor of the Exchequer Gordon Brown when he took office in 1997.

11 1. Employment: 75% of the 20-64 year-olds to be employed
2. R&D: 3% of the EU's GDP to be invested in R&D
3. Climate change and energy sustainability: greenhouse gas emissions 20% (or even 30%, if the conditions are right) lower than 1990, 20% of energy from renewables, 20% increase in energy efficiency
4. Education: Reducing the rates of early school leaving below 10% at least 40% of 30-34–year-olds completing third level education
5. Fighting poverty and social exclusion: at least 20 million fewer people in or at risk of poverty and social exclusion

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CHAPTER FIVE

Public Policy Making and Organization of Public Services*

Public services have a fundamental and important role in modern market economies. How the performance of public services can be improved is one of the most frequently asked questions, frequently heard from service clients, beneficiaries and financing entities alike. While no universal listing of public services exists, it is the governance processes of a given community that are able to define a service as a public service. In the case of the European Union, this is a cooperative process between the EU level and the member states. Government action (for example, the organization and financing of public services, regulating access or ownership of service providers) may appear in a myriad of forms and combinations, however, all of these actions are primarily governed by the need for improved performance of public services. This chapter provides an overview of the key concepts of how to describe government actions and interpret the performance of public services, and also sets up a framework for analysis. The information base for studying government action is provided by the methodology of public policy analysis. The performance of public services is described by the 4E model, referring to economy, efficiency, effectiveness, and equity as building blocks of public service performance. Also reviewed are which aspects of public performance improvement should be considered to be primarily the responsibility of public policy makers, and which are those over which the managers of the public service providers should have authority. The systematic, decision-oriented use of sector and organizational level performance information is described by the concept of performance management. Examples of practical applications of performance management systems are also provided.

Introduction

Public services play an important role in the modern states of the 21st century. Education, health care, public utilities, and other public services represent a significant share of economic performance, employ large numbers of people, and contribute to competitiveness to a great extent. Providing solid frameworks for government action in this area is of high importance. Concepts like regulatory impact assessment, annual public sector performance reports, and the use of performance indicators have recently

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come into fashion. This chapter aims to provide a general framework for studying government action in this area by building on the literature of public policy making and analysis.

This chapter defines public policy, public policy making, and public services, reviews the main methods of public policy analysis, which provides a basis of supporting information for government action, and sets up a framework for interpreting the performance of public services. The structure of the chapter reflects this logic: definitions of key concepts are followed by the methodology of public policy analysis and types of government action. The performance framework of public services is complemented by describing how performance management systems use performance information. Theoretical frameworks are supported by short cases and several examples.

1. Key concepts

Public policy describes government actions or plans of action that deal with the problems or sets of problems of a given community. Birkland (2001:9) defines public policy as a "statement by government […] of what it intends to do about a public problem". The Institute for Policy Studies at Johns Hopkins University[1] considers public policy to be "action taken by government to address a particular public issue", where government may refer to the local, state, federal, or international level: these government organizations "all craft and implement public policy to protect and benefit their populations." The content of public policy (thus government action) may take varied forms: it is not only derived from the written law and other forms of regulation, government documents and verbal statements, debates, symbols, or the practice of implementation are all defining factors. (Birkland, 2001:9-10) Defining boundaries of discrete public policies is also a difficult task: it can be approached primarily by categorizing the nature of the public problems that the policy intends to solve. For example, Wallace et al. (2010) in their book about European policy making wrote chapters about the common agricultural policy, competition policy, trade policy, cohesion policy, energy policy, environmental policy, social policy and so on.

Public policy making is seen as a cyclical process. (Dunn, 2007) The steps of this process are as follows:

- *Agenda setting:* The public problem that is intended to be solved by the government action is identified during the first step of the cycle. Attention may be directed to these problems by actors outside the public administration (politicians, experts, citizens). Appropriate problem definition is important because public policy actions may fail if they react to an erroneously defined problem.
- *Policy formulation:* Several (more than one) alternatives are elaborated in order to solve the problem in the second step.
- *Policy adoption:* The decision-maker chooses the alternative that is to be implemented.

- *Policy implementation:* The implementation step of an adopted policy depends on a wide range of actors. This step might require time and resources, for both the regulator body and the regulated actors. Resources must be planned for, and also be mobilized in a timely manner.
- *Policy evaluation:* During the last step, it is determined whether the adopted policy was implemented or not, how it was implemented, and whether the measurable results are consistent with the original objectives of the government action. Policy evaluation may also find additional problems, thus leading to the beginning of a new cycle.

Operating the public policy cycle requires the presence and use of multidisciplinary (legal, economic, and other professional) knowledge. Dunn (2007:1) defines *public policy analysis* as a "process of multidisciplinary inquiry designed to create, critically assess, and communicate information that is useful in understanding and improving policies". Policy analysis, on the one hand, is descriptive, because it makes claims about alternative actions and their possible consequences without value statements and by using scientific methods. On the other hand, however, policy analysis is also seen as a normative process, since it involves the definition of objectives and choice of actions where decisions often require a moral basis and thus choices reflect a moral standing.

There is no universal definition or list of *public services*. Which services are considered to be public services depends on the country, or even space of time. It basically depends on which services the citizens of a country think of as a task of the community or as an individual responsibility (for example, this is the main question of Obama's health care reform in the United States, while in European countries it is not even questioned whether health care should be a public service; nevertheless, the federally financed Medicare/Medicaid programs already are an indicator of strong government action). This concept is not equivalent to the concept of public goods, as used by economists: public goods are community goods or services where individuals are not excludable from use or benefits, and there is no rivalry among users in consumption (use of the service by any individual does not represent a barrier of use for anybody else). Typical examples of public goods are clean air or national security. Public services are broader than public goods. Any service can be considered to be a public service that is, at least partially, provided or financed by the state (or local governments) or is heavily regulated (beyond general economic regulations), and that is accessible by anyone under the same set of rules. The European Union uses the concept of "service of general interest", and does not create a universal European list of public services. Based on the paper of the European Commission (EC, 2004) the term service of general interest "covers both market and non-market services which the public authorities class as being of general interest and subject to specific public service obligations." Classification is usually carried out by member states; however, there are several services where European-wide regulation is also applicable (e.g. liberalization of postal services or long-distance mass transportation).

The way in which public services are organized varies. Providers may be owned by the public (state or local governments), and users may be entitled to use services free of charge or required to pay a fee, which may or may not cover the total cost of the service. Providers may also be operated by the private or not-for-profit sectors, and the government may or may not finance the services. This chapter provides a general framework for the interpretation of government action and the performance of public services, thus the wide range of possibilities for organizing public service delivery is not examined in detail. Literature dealing with these issues analyzes such concepts as purchaser-provider split, cooperation of the public and private sectors (for example, public-private partnerships), methods and institutions of price regulation, subsidies, user fees, and co-payments.

2. Public policy making and analysis

The steps of the public policy cycle were reviewed, and public policy analysis was defined according to key concepts. Figure 1 illustrates what types of questions may be answered during public policy making by using policy analysis tools.

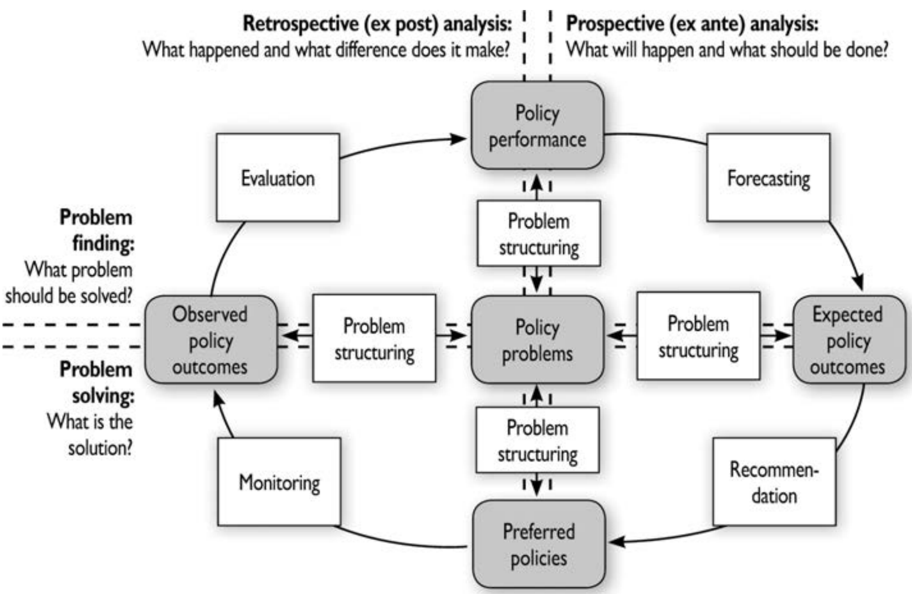

Figure No.1. *Areas of public policy analysis*
Source: Dunn (2007:4,11)

Public policy analysis supports policy making in the following ways (Dunn, 2007):

- *Monitoring:* provides information about observed policy outcomes. An example of this is when indicators for measuring the consequences of the policy action are defined early on, during the planning phase (for example, monitoring indicators of EU structural fund development projects are defined in the application phase). The application of sector-level indicator systems are also examples of monitoring: there are several projects running in the European Union that aim to standardize statistical data and create indicator systems to be used universally throughout the member states, thus contributing to better European-wide governance (for example, the European Core Health Indicator or ECHI project[2] aims to define an indicator set that is suitable for the comparison of European health care systems).
- *Evaluation:* provides information about expected and observed policy outcomes (which may be defined as policy performance). Evaluation goes beyond the scope of monitoring: the achievement of policy goals is assessed by using monitoring indicators, and causes and influencing factors of success or failure are also analyzed. For example, the annual report about a sector or a public organization reviews the economic and professional performance by building on performance indicators.
- *Forecasting:* provides information about expected policy outcomes (which might include cases of "no action" as well, beyond simply projecting the possible results of various scenarios). Systems that public policy actions are intended to change are complex systems, and thus building a good forecast model is often a challenging task. An important methodology used during forecasting is regulatory impact assessment (RIA). The European Commission has created guidelines stipulating how to carry out impact assessments. RIA creates information about the expected consequences of the possible scenarios of government action, contributing to well-informed decision making.
- *Recommendation:* provides information about the preferred policy actions. It helps the decision-maker so that he or she can make better-informed decisions about the possibilities. Choosing between scenarios often involve trade-offs, which must also be described by policy recommendations.
- *Problem structuring:* provides information about which problems are to be solved. According to Dunn (2007:6), this is a "metamethod" because the appropriateness of problem structuring is a recurring question of the other four activities, too.

Policy analysis can be *retrospective* (or ex post) and *prospective* (or ex ante). Monitoring and evaluation activities focus on past actions and historical data, and thus are retrospective, while forecasting and recommendation are future-oriented, or prospective. Evaluation and forecasting are primarily concerned with identifying problems, while recommendation and monitoring are more concerned with solutions.

The strategy of a policy field (or a sector or subsector) is a document which contains medium and long term objectives as well as actions and action points aimed at the achievement of those objectives, supplemented with the description of planned implementation (resources, timing, and responsibilities). A public service strategy defines objectives for all the stakeholders: users and beneficiaries, public, private or not-for-profit service providers, regulators and supervisors – actually, for the society as a whole. Government actions often must go beyond traditional scope of sectors (for example, health improvement extends beyond health care into education, while an anti-drug strategy involves several sectors).

The most important consequence of this overarching nature of strategies is that public policy-making must involve a wide range of stakeholders – leading to the concept of public governance. Public governance refers to "the way in which stakeholders interact with each other in order to influence the outcomes of public policies." (Bovaird–Löffler, 2003:6)

The policy field itself (thus the field covered by a given strategy), with its boundaries, cannot be precisely and universally defined. How the boundaries are drawn may be influenced by many factors: for example, traditional organizational boundaries (or just the need for overcoming them), those entities that are subject to the planned intervention, adaptation to external requirements (e.g. European Union regulation), or shifts due to technological development. A single organization may be subject to several policy fields: for example, hospitals are stakeholders in health care policy, development policy, territorial cooperation, drug prevention, and so on.

What are the general types of interventions in public policy? Boyne (2003), based on a literature review, identified five theoretical perspectives for action that can lead to public service performance improvement (a definition of performance will be provided in a later subchapter):

(1) *Resources:* increase of expenditure generally contributes to higher performance of public services, since it has a positive effect on quantity and quality of services produced. There are, however, opposing views as well: those who claim that resources must be spent efficiently.
(2) *Regulation:* adequate regulation improves performance, however, too much regulation may have a negative impact. It must be noted that a special case of regulation is when the financing rules of public services providers are changed, for example, by strengthening elements of pay-for-performance. Other common types of regulation are price controls and calculating user fees.
(3) *Market structure:* it is a frequently held view that greater competition automatically improves efficiency, encourages innovation and leads to higher levels of satisfaction from consumers. Others, however, caution that hierarchical coordination may be better than market coordination in industries where there are a low number of potential market players, and asset specificity and information costs are high.
(4) *Organization:* size and form of organizational structure, the extent of centralization or decentralization, and network coordination, which is a growing field of research, are all influencing factors on performance.
(5) *Management:* adequate strategic processes, human resource management, supportive organizational culture and leadership style all have a positive effect on performance.

Policy actions in these dimensions may be specific (for example, securing monetary resources of a given sector, changing sector regulation, influencing market structure in a given industry, reorganization or management development of a sector) or general (for example, changing general rules of public service provision or guidelines of budgeting, initiating a general public administration reform or a wide-scale public leadership development program).

3. Performance improvement for public services

As regards public services, the general mission of public policy making is to improve performance. Specific objectives of performance improvement might include statements about better quality of public services, the need for better access, especially for socially deprived groups, more economic operations, or a more efficient government. In order to be able to systematically analyze the various objectives and initiatives for performance improvement, a general framework for the interpretation of performance is introduced. Since public policy making is directed at improving the performance of given policy sectors, the definition and the defined categories of public service performance below will help us in better understanding how policy objectives can be operationalized for performance improvement purposes.

4. A general framework

The term *performance* is widely used; however, its meaning differs in different contexts such as physics, social sciences, management, and sports. As regards management of public services, performance can be described by the concept of 4E.[3] (Bouckaert – van Dooren, 2003) The general framework of this concept is illustrated by Figure 2. The framework describes the relationship of public policy making and public service providers: the rectangular outline marks the boundaries of public service provider organizations and identifies the activities of their managers.

Defining social needs, to be targeted by government action, is carried out by public policy making during the step of agenda setting and relies heavily on problem structuring (however, not all social needs might call for government action). Policy formulation first results in strategic goals for the sector or subsector of the policy action in question. As was mentioned in connection with the normative nature of policy making, deciding among alternatives often involves trade-offs and requires value-based judgments. Therefore, strategic policy goals are not independent of political programs, processes and choices. Public policy implementation results in lower-level regulations, for example, changes in details of financing rules of public service providers. These changes are the ones which have a direct effect on the behavior of service providers: organizations adapt to these changes (for example, they adapt to changes in environmental regulations or changes in reimbursement fees). Actually, this change in behavior is *the* most important intended consequence of policy action: regulations and financial motivators are changed in order to implement the new policy in the everyday operations of service providers. Consequently, the organizational strategy of a public service provider is heavily influenced by changing regulations and financial rules.

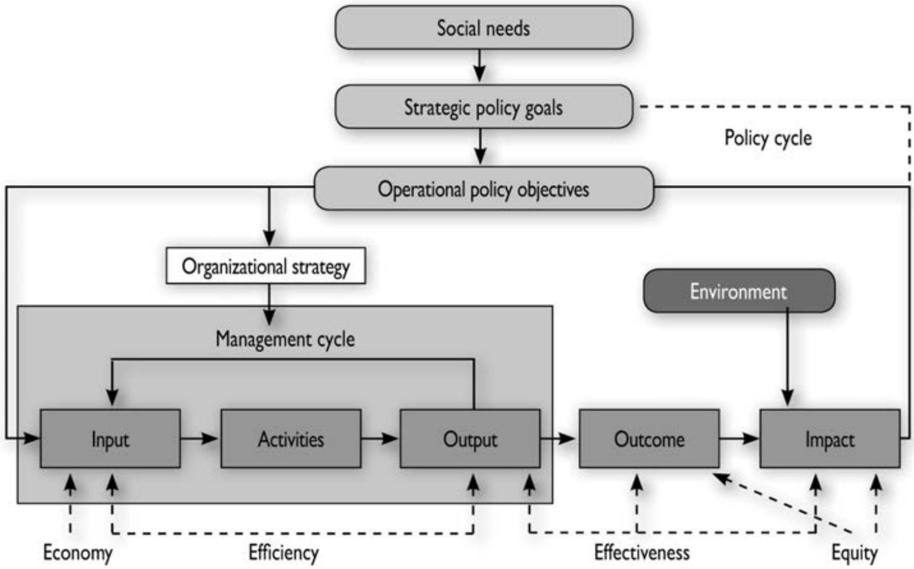

Figure No.2. *Dimensions of performance of public services*
Source: based on Bouckaert – van Dooren (2003).

This is the "point of entry" to the management processes of public service providers: activities, carried out by the provider, transform input resources (e.g. infrastructure, equipment, human resources) into outputs (products or services). These outputs are not always considered to be valuable on their own: they are often produced because they contribute to outcomes, and these outcomes are the ones which are beneficial to the community. One might measure the number of lessons taught at an elementary school (which is the output of the school), but it is arguably less important than the outcomes: how these lessons contribute to the increase of students' knowledge and competencies. In a hospital it is not the number of surgeries performed which really matters – but rather the improvement of health status (to which well performed surgeries contribute). Shorter term outcomes and longer term impacts are often separated: for example, students with better competencies will be more successful in the job market, potentially leading to higher economic growth, which is a valuable impact for the entire community. It is also often the case that expected outcomes (and thus impacts) are influenced by the activities of several different actors: students' competences are not only dependent on the quality of schools, but are also influenced by the curriculum and school books available, and better health status is a result of the cooperation of general practitioners, specialists, hospitals, drug stores, and other health care providers. Additionally, there are environmental factors that cannot be (or can hardly be) changed by policy actions: for example, even students with good competencies can find it difficult to find jobs during a global economic crisis.

This is the framework in which the "depth" and "width" of performance of public services is interpreted (based on Bouckaert–Halligan, 2008). "4E" refers to the "width of public performance":

- *Economy:* refers to acquiring the resources needed for the activities of an organization at lower costs. The concept of economy, as an element or dimension of performance, is similar to calculations used for investment analysis ("which equipment worth purchasing"). Indicators of economy are often presented as input/input ratios (for example, the number of nurses per hospital bed).
- *Efficiency:* refers to the ratio between the outputs (products, services) and inputs (resources used). An organization is more efficient than another if it is able to produce the same level of output by using fewer input resources (for example, producing one unit of passenger-kilometer at a lower cost), or is able to produce more outputs from the same amount of inputs.[4]
- *Effectiveness:* as was discussed above, outputs contribute to the achievement of shorter term outcomes and longer term impacts (which address social needs). Effectiveness refers to how much outputs contribute to expected outcomes (for example, how much the degree issued by a university increases the market job value of a student, and how the higher education sector contributes to economic growth). It was also noted that actual measured impacts are often dependent on environmental factors as well.
- *Equity:* an important aspect of public services is how the benefits are distributed among the various groups of the society (groups can be formed based on, for example, socio-demographic or geographical factors). In a narrower sense, equity may refer to equality in access to services (for example, the chance for students in smaller villages to access high quality education). This narrower approach, however, ignores that several factors other than access to services also have an influence over outcome and impact indicators.

Once the dimensions (or the "width") of public service performance are defined, it is possible to examine which actors can influence which dimension of performance: who is accountable for the economy, efficiency, effectiveness, and equity of the services provided. A public service provider is primarily held accountable for the economic procurement of its input resources, including the economic build-up of its capacity, as well as for the efficient organization of its activities, resulting in efficiently produced outputs (of course, regulations and financial motivators should also be taken into account). Due to external factors, effectiveness is only partially dependent on organizational activities (for example, a monitoring system which keeps track of university graduates, produces outcome indicators and measures effectiveness, but job market performance is also influenced by factors other than university performance – thus it would be unwise to finance higher education institutions solely on the base of effectiveness measured by this system). Equity, beyond the principle that a public service organization should not discriminate against any groups of society in accessing services, is only dependent on the organization to a small extent. It is the primary role of public policy making to create regulation and financial motivators that result in an optimal mix of outputs produced by public service providers. An optimal mix of outputs results in outcomes that represent the best possible value and just distribution of benefits for the society (for example, the question of where to build new health care capacities to decrease health inequalities is rather answered by public policy analysis than organizational strategies of individual providers).

Based on the various types of accountability two cycles can be defined. The *management cycle* refers to the feedback loop of the leader of a *public service provider organization*, and primarily deals with the improvement of economy and efficiency of the organizational processes. The plan for ways to improve organizational performance is, essentially, the organizational strategy. The *policy cycle* refers to the feedback mechanisms of public policy making, and primarily deals with the effectiveness and equity of *public services*. It provides feedback about the need for changes in either the operational policy objectives, or the strategic policy goals (if it turns out that the original goals cannot be achieved).

As for the "depth" of public performance, three levels are defined (Bouckaert–Halligan, 2008):

- *Macro level:* refers to the performance of the country as a whole. Macro level performance is measured by high-level economic indicators (e.g. GDP) or complex indicator systems (e.g. competitiveness indices). There are several indicators systems used for measuring the performance of governance as well.
- *Meso level:* refers to the performance of a given sector or field of policy action. The performance of a service provision network is also considered to be meso level performance (for example, health care providers in a region).
- *Micro level:* refers to the performance of a single public service provider (for example, how well a university or the faculty of a university performs).

How the performance of governance can be interpreted (see Figure 3) is analyzed by van Dooren and Lonti (2011). Governance processes essentially represent supporting activities for the functional processes of policy making: for example, the practice of human resource management or the quality of information technology in the public administration (which are highly dependent on regulation of and resources devoted to public governance) creates a supportive or obstructive environment for policy making in various areas. How governance processes are run has an impact over the quality of public policy in every area. While better quality public policies are more effective in handling social and economic problems (have more beneficial policy outcomes), public policy making, as being the "product" of governance, determines governance outcome as well. For example, a compensation system better motivating individual performance in the public administration is not just valuable in itself, but is beneficial because it helps with the formulation of better public policies.

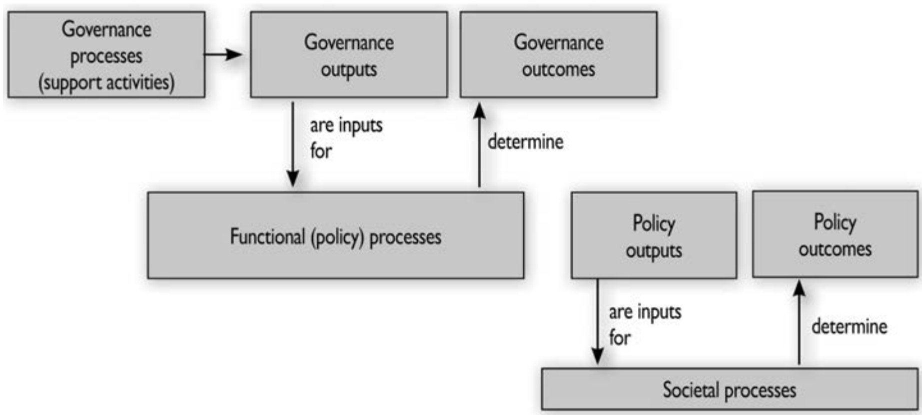

Figure No.3. *Performance of governance and policy making*
Source: based on van Dooren – Lonti (2011).

Critics of the 4E model[5] raise three arguments (Walker et al., 2010):

(1) The model puts too much emphasis on expenditures. The level of expenditure (whether expenditures are high or low) does not really reflect performance. A great portion of expenditures cover the costs of human resources, and budget cuts, which have been becoming more and more popular as a consequence of the financial crisis, are often targeted at personnel costs – but why should the actual performance change (or even improve) due to these cuts?

(2) The model focuses on technical efficiency instead of allocative efficiency. It would be, however, more preferable if public service provision systems could react to changes in needs through better (re)allocation of resources. Too much focus on efficiency also means that the role of external stakeholders is exaggerated at internal stakeholders' expense. In service industries, the motivation of employees is an important influencing factor of performance (see also van Dooren and Lonti, 2011, above).

(3) The model focuses on service delivery and management processes too much, not paying enough attention to the public governance approach, thus ignoring the criteria of participation, democratic values, citizen rights or accountability. Bouckaert and Halligan (2008) applied a similar approach when they complemented the 4E model by adding trust to inputs, outputs and outcomes.

In spite of the criticism or the potential supplements, the 4E model is widely applied for measuring public service performance and evaluating policy actions. For example, a similar logic is used by the European Commission (EC, 2008) guidelines about the evaluation of socio-economic developments. Based on the logic of development policy actions, the guideline defines four categories of indicators: resource indicators (financial, human, material, organizational or regulation resources, used for the implementation of the action), output indicators (the immediate results of the development projects), outcome indicators (positive, or sometimes negative, benefits for those who are directly affected by the program), and impact indicators (indirect benefits for the greater society).

5. Performance management

The tools and activities directed at the performance improvement of public services could summarily be called *performance management*. The OEDC (1995) defines a performance management system "via a series of processes related to: setting performance objectives and targets for programmes (and in many cases made public); giving managers responsible for each programme the freedom to implement processes to achieve these objectives and targets; measuring and reporting the actual level of performance against these objectives and targets; feeding information about performance level into decisions about future programme funding, changes to programme content or design and the provision or the provision of organisational or individual rewards or penalties; providing information ex post review bodies such as legislative committees and the external auditor (depending on the latter's performance audit mandate), whose views may also feed into the decisions referred to above." OECD thus primarily describes performance management as a tool for policy implementation. Performance management is seen as a cyclical process, similar to public policy making, where the implementation of policy programs or program elements is carried out through setting organizational objectives, while evaluation is done by performance measurement and reporting and feedback.

A central element of performance management is *target-setting* (the definition of expectation or standards). It is the target that makes it possible to evaluate performance: actual performance is compared to the target, and judged as good or bad performance. Targets can be set at the policy (sector) level with respect to expected outcomes and impacts – and about the average expected efficiency of public service providers as well (for example, a price regulator body will treat the average unit cost of outputs as a measure of efficiency; DRG-based financing of hospitals in Hungary explicitly builds on the measurement of average unit cost of various treatment groups, although measurement problems lead to allocation problems and adverse behavior of hospitals). Targets can also be determined at the organizational level – for those performance dimensions over which the organization has an adequate level of authority.

Targets can be based on political or policy statements, scientifically defined standards, historical performance, or the performance of organizations providing similar services. (Bouckaert – van Dooren, 2003) Performance comparisons among organizations are also called *benchmarking*. If the target is set by using benchmarking, it is essential that the organizations used for comparison carry out similar activities. Hartly and Skelcher (2008), however, claim that the comparison of actual performance to a preset standard is not enough. It is not known if the standard was set up correctly (for example, there is no guarantee that the performance of the other organization, the benchmarked one, was good), and the longer term sustainability of the standard level performance is uncertain.

A further challenge in setting standards is that external factors affect outcomes and impacts and these influences are difficult to calculate with.

The application of performance indicators in the public sector is spreading, partly as a result of methodological developments in this field of research. Several problems and biases of indicators have been successfully reduced for practical use. One of the well-known examples of practical applications of performance-oriented thinking is the General Performance and Results Act (GPRA)[6] in the United States, which was adopted in 1993. According to the act, each agency is required to create a strategy and formulate strategic objectives, develop performance indicators that are able to measure the fulfillment of the strategic objectives, set targets for performance evaluation, and compile publicly available reports about actual performance. As a consequence of this act, US departments now upload their annual reports to the web, and everybody is able to keep track of which objectives have been achieved or missed. However, the potential impacts of the act have been debated from the very beginning. For example, Radin (1998) claimed that such a complex problem and such a complex system requires a great deal of effort to define suitable performance indicators and create supporting information systems, and a lot depends on how the individual agencies set up their own performance management systems. A recent report by Moynihan and Lavertu (2012) showed that the use of performance information has not become as widespread as was hoped at the introduction of GPRA. Due to the information asymmetry between the agencies and their supervisors (or the public) it can be easily checked whether data records and performance information about the organization is available or not – but it is much more of an unknown question whether these pieces of performance data are perceived as useful and actually used by the managers of the organizations. Therefore, recent reforms are directed at motivating the use of performance information instead of merely producing and publishing data (for example, by introducing quarterly performance reviews).

Conclusion

Public policy making and the improvement of performance of public services consist of cyclical processes, and each step relies on data collection and processing methodologies and systems. The steps of the public policy cycle are agenda-setting (definition of the public problem that is intended to be handled), policy formulation (seeking for alternatives), policy adoption (making the decision), policy implementation (carrying out the planned changes), and policy evaluation (checking if the policy action was successful). Methods of public policy analysis (problem structuring, monitoring, evaluation, forecasting, and recommendation) provide informational support for the steps above. Policy intervention for performance improvement can be generally defined in five broad fields: providing additional resources, changing regulation, altering or influencing market structure, initiating organizational change, or developing management systems and leaders.

The public service performance framework builds on the four performance dimensions of economy, efficiency, effectiveness, and equity. It was concluded that the public policy cycle can be primarily held accountable for effectiveness and equity of public services, while economic and efficient operations mainly lie within the authority of managers of public service provider organizations. This distinction should also be applied to the boundaries between and the contents of sector level and organizational level performance management systems. Performance management systems are developed and operated in order to create suitable and reliable information about performance as well as to use it for decision support. The main expectation from both organizational and sector level performance management systems are that they are actually used for improving performance.

Questions

1. What are the steps of the public policy making process, and how do the methods of policy analysis support these steps?
2. Why is it not possible to create a universal list of public services?
3. What are the general fields of policy intervention for performance improvement? What are the general policy actions that the government can define?
4. What are the dimensions of public service performance?
5. How do public policy cycle and management cycle contribute to performance improvement of public services?
6. What is the content of performance management in the public sector?
7. What options are there to set performance targets?

Further readings

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Endnotes

1 Johns Hopkins University, Institute for Policy Studies. http://ips.jhu.edu/pub/public-policy (downloaded on 15 April, 2014)

2 See: http://ec.europa.eu/health/indicators/echi/index_en.htm (downloaded on 15 April, 2014)

3 Sometimes this concept is referred to as 3E, without including equity (or treating it as part of effectiveness). The same logic is applied to the concept of IOO (input-output-outcome).

4 The term "productivity" is also often used instead of "efficiency". Most often, "efficiency" refers to an input/output ratio (for example, total unit cost of products

produced or serviced delivered), while productivity is a measurement of output/input (for example, units produced per employee).

5 The authors refer to the model as 3E or IOO.

6 See: http://www.whitehouse.gov/omb/mgmt-gpra/index-gpra (downloaded on 15 April, 2014).