

Transformation of Governance in Hungary

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Abstract: *The paper deals with the causes of poor implementation of the managerial reform in Hungary. Every state needs to respond to the new global challenges, however, in the former communist countries, like Hungary, the old administrative and political culture hamper the implementation of reforms. The common phenomena of old governance style are the hierarchical management structure, almost exclusively vertical flow of information, strong state-centered decision-making, which is cut off from the public and society and, finally, the over-politicization of the political process, which is not easily replaceable with the new modes of governance.*

Introduction

After the events of late 1980s we have seen a change in the role of the state. Government theories were repaired by governance theories, which put emphasis on involving the civil sector and the market in the governance. The first wave of the challenge was the New Public Management (NPM), which mainly focused on the marketization of the state. Managerial reform has been global in two senses: first, it has spread around the world; second, it has been sweeping in scope. Governments have used management reform to reshape the role of the state and its relationship with citizens. Following the Westminster-style reforms defined as 'new public management' the Eastern European countries tried to curtail the size of government and imposed a market-style discipline on it (Kooiman 2003).

The main framework of the management reforms built on the notion that good governance — i.e. sorting out of mission, role, capacity, and relationships — is a necessary (though not a single) condition for economic prosperity and social stability. The management reforms

have embodied six core characteristics in general, which can be labeled as a standard toolkit of strategies: productivity; marketization; service-orientation; decentralization; policy and the accountability for the results, which are the same all over the world (Kettl 2000).

However, in contrast to the similarities in basic strategies, the result of governmental reforms in Eastern European countries led to different results than in the basic models of reform (Westminster countries, like UK, USA, and New Zealand).

Since 1989, after the so-called regime-change, Hungary has evolved in the process of democratization, transition to market economy and accession to the European Union. The scale of changes was huge. However, the institutions and the public administration are still working in the same, overly centralized and formalized, manner. As a result, apart from the new formal structures, new informal practices have risen up.

Comparing the global trends and the Hungarian practices leads us to the following question: is Hungary able to implement the new methods of governance? According to our findings, namely, the wide gap between theory and practice, the general purpose of research was coming to know more about the process and the result of implementing public management reforms in Hungary.

Research problem

Managerial reforms have spread like wildfire, often without careful analysis of the results they have produced or the preconditions for success. In the core of this wildfire is a profound paradox: government management is both more and less important than the reform movement suggests.

On the one hand, macro governance and macroeconomic issues often swamp management reforms. What matters most usually is whether the economy is growing and whether citizens think government is working. The problems the reform movement in Eastern Europe seeks to solve have to do with government's relationship with civil society. Its strategies and tactics seek to strengthen government's capacity to meet citizens' hopes. Swedes assess their reforms by the level of economic growth, continuation of treasured social welfare programs, and maintenance of social cohesion.

On the other hand, government bureaucracy and its management play a central role in these macro-level political and economic issues. For governments to grow, they must manage their debt and public programs effectively. Government managers and elected officials alike have complained that standard bureaucratic procedures frequently handicap their government's ability to respond effectively to global challenges. Hence, government reform is often much more important than it appears on the surface. Without strong public management well-equipped to tackle the problems government faces, governments in many cases have been unable to play their required roles.

In the case of Hungary the starting point for the reforms were very unfriendly. First of all, we experienced a hierarchical management, which means almost exclusively vertical information without any horizontal information flow, dialogue or consultation. As a result, the

strong state-centered decision-making cut off the state from the public and the society. In the name of pursuing effectiveness in its traditional understanding, the Hungarian government increased the control and centralization over policy (G. Fodor-Stumpf 2007).

According to these findings, the hypothesis was that the success or failure of the governmental reforms rather depends on how deeply its reforms become wired into state governance systems – its political institutions, public expectations, and civil society rather than its internal elements. According to our hypothesis, the success of implementation depends on integrating efforts between the strategy and external factors and claims.

Analytical aspects

In this chapter we will overview the core analytical aspects (internal, external), and their units. The first analytical aspect is the core characteristics of the managerial reform, which defined the basic reform strategy of government. The core characteristics of the reforms are: productivity; marketization; service-orientation; decentralization; accountability and, finally, policy (Jenei, 2005). The second aspect is the external factors (political, social, economic, and institutional) which are important preconditions for making reforms in Hungary (Hosszú 2008).

In the case of productivity the research question is: How can governments produce more services with less tax money? Governments have to find ways to squeeze more services from the same, or smaller, revenue base. The possible tools for that are privatization, outsourcing and increasing efficiency.

Because of the constraints of marketization governments have to replace traditional bureaucratic command-and-control mechanisms with market strategies, and then rely on these strategies to change the behavior of program managers. The research question is: How can government use market-style incentives to root out the pathologies of government bureaucracy? One of the possible tools for marketization is giving training program for public managers.

The third characteristic of the reform is the service-orientation, for which the research question is: How can government better connect with citizens? The aim of the service-orientation is making governmental programs more responsive. The governments have tried to turn their service delivery systems upside down by giving citizens choice among alternative service systems, or making training program managers (service-providers) focus on service, and encouraging a customer-oriented approach in government services.

Perhaps the decentralization is the most sensitive point of the reform. The reform strategy has decentralized many programs to lower levels of government. The main question in this field is: How can government make programs more responsive and effective? The possible tools can be the following: shifting power within the system (however, this works only in federal systems); transferring more service delivery responsibilities to local governments; and, finally, decentralizing responsibility within public agencies to give frontline managers greater incentive and ability to respond to citizens' needs.

Accountability for result is a very important measurement as well. To achieve this governments have tried to replace top-down, rule-based accountability systems with bottom-up, results-driven systems where uniting different efforts are strategies to push operational decisions closer to the front lines; to focus those decisions on results rather than on processes; increasing efficiency by testing government's processes against private markets; increasing responsiveness of government to its citizens; or increasing capacity of government, especially central government, to manage effectively.

When the governments deal with the policy aspect they try to separate government's role as the purchaser of services (its policy function) from its role in providing them (its service-delivery function). The policy factor as a research aspect raises the following question: how can government improve its capacity to devise and track policy? The possible tools can be: separating government's role as purchaser of services (its policy function) from its role in providing them (its service-delivery function) and improving the efficiency of service delivery, which may remain in the hands of government, while improving their purchasing capacity.

The external factors are also elemental for reaching success in governmental reforms in Hungary. The external factors are: political, social, economic and institutional frameworks.

With the end of the communist era, many Central European nations found themselves amid widespread debates about the role of the state. Former communist countries had the daunting task of transforming their basic systems of governance, devising institutions that are more democratic, building civil society and reshaping their relationships with their citizens. Claims for 'smaller state' linked up with 'Westernization' in Eastern European countries. The political power of the somewhat shrinking government has nevertheless spread around and created strong political pressures for reform.

Hungary, like many Eastern European states, has been working to reconstruct its social, legal, economic, and political system. Some nations faced profound societal transformation, which obviously does not assure a friendly environment for reforms (Ágh 2004).

Nowadays economy is the most important factor for making reform agenda. In the cases of some countries the difficult economic situation brought harsh challenges to the governments and great urgency for reform. Other nations launched their reforms to escape economic stagnation and to fuel economic growth. Corporate leaders in many nations have complained that government, especially its tax and regulatory policies, has restrained the economic growth and limited their businesses' global competitiveness. Deregulation, privatization, and other tactics to promote job creation and economic growth have been central to the political debate in Hungary with regard to IMF Loan Agreement.

The institutional framework is also a very important factor. All governments have found themselves part of an increasingly global economy and political system. Major initiatives - military, economic, and political - require careful negotiation and partnership. Within the European Union the new member states are racing to harmonize their policies and create supranational structures to shape future programs.

Although the European Commission recommends the introduction and enhancements of the new methods for the member states, which are based on trust and negotiation, but these methods just reinforce certain bad practices in the administration because of its informal nature.

Meanwhile, some international organizations besides the European Union, including the United Nations, the World Bank, the International Monetary Fund, and the World Trade Organization, are playing significant roles in shaping the world community. In the time of financial crisis the influence of IMF has increased.

In Hungary, according to IMF/EU Loan Agreement (4-11-2008) the public sector is supposed to undergo a kind of a reform process. In fact, it is rather a fiscal necessity measure than a structural reform. In the Annex I of the above mentioned document we can find some other fiscal restrictions which will influence the public sector, namely ‘(...) *Progress with the achievement of the revised 2008 deficit target of 3.4% of GDP as supported by the progress in achieving of the revised official 2008 cash-flow deficit target for the central government subsector (also of 3.4% of GDP)*’ (IMF). The result of this fiscal cutting is questionable, since its focus is different.

Main conclusions and recommendations

The main conclusion from the research is that the new methods of governance are poorly introduced into the administration practices. Hungary is not ready to implement the new methods of governance because of several pernicious practices and stereotypes. One of these is the traditional understanding of effectiveness as increasing centralization, tightening control over the decision-making and the vertical decision and informal flow. The second one is the fear of reducing influence of party politics, which can increase the openness of administration, transparency and control by social partners. The third reason of poor implementation is the weak and fragile civil society, which causes the lack of public consultation. It is possible that the last one is the most important factor for implementing managerial reforms, because, according to the findings, the lesson for Hungarian and Eastern European reformers is that public management reform is not only the job for the public sector.

The reform strategies required broad citizen participation in setting goals and, in many cases, forging a close partnership between the governmental and nongovernmental sectors. Without successfully integrating the effort of the government and civil society the government reforms are doomed to fail. In those countries where the government operates the reforms by the book (i.e. following the basic strategies of the leading Westminster countries) but the private and civil sectors routinely breach the rules and regulations this type of imposed management reforms will never be successful.

As a recommendation, the government should encourage the transfer of institutions, regulations, and the best practice from Europe by encouraging the monitoring, training and holding conferences. To fight centralism and the harmful effect of party politics the government should increase the role of horizontal information and decision flow or management by objectives. Apart from these innovations for the involvement of the civil sector the government should encourage networking and experience sharing between the stakeholders involving the ‘missing’ actor of governance.

Finally, in order to improve public administration, the government should introduce more precise requirements for the implementation of new governance against the current, post-communist administrative culture. The successful reform should decrease the politicization of the decision flow and increase transparency by engaging in the process various social partners.

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