

# **Hungarian Public Administration: From Transition to Consolidation**

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## **I. General overview of public administration**

Hungary is a parliamentary democracy. From the point of view of the territorial dimension of governance, it is a unitary state with a two-tier local government system (municipal and county level elected self-governments; hereinafter local governments). The constitutional-legal status, i.e. arrangement guaranteeing the broad autonomy of local governments is exceptionally strong, as are their functions in the provision of public services and in the administration/implementation of central government policies.

The electoral system is a mixed one, involving elements of both the majority and the proportional system; the mechanism, however, strongly favours large parties rather small ones. Representatives of the single-chamber Parliament are elected either in individual constituencies or on party lists. In 2008, there were four parties in the House of Representatives. During the five election periods having taken place since the transition, all governments were (either two- or three-party) coalition governments.

The President, elected indirectly by Parliament, has a formal, rather than substantive role; however, in times of political crises, the President has important functions as an arbitrator between political parties and as the supreme commander of the armed forces.

The Hungarian administrative system has, from a formal-institutional aspect, all the features characteristic for Continental European administrative systems.

The central government sub-system is divided into ministries (currently, there are 15 of them). At the core of this sub-system one finds the Prime Minister's Office, which is, contrary to its name, actually a large, chancellery-type organization. Ministries are chiefly responsible for

policymaking while most of the implementation tasks – especially those having a territorial dimension – are carried out by centrally supervised administrative organizations (so-called de-concentrated organs). However, there are important exceptions to the above role, such as centralized public procurement, which is located in the Prime Minister’s Office.

The local governmental system is a two-tier one. The territory of Hungary is sub-divided into nineteen counties, while the capital city Budapest has a special administrative status. Counties, as well as Budapest, have elected councils and self-governments having a broad task portfolio in public service provision. This upper tier of the self-government system is responsible, among others, for the middle level health and the secondary education services.

The lower tier of the local government system includes the municipalities (in Budapest, district local governments). They are governed by elected councils. Local governments are responsible for another broad set of public service provision tasks, including kindergarten, primary school, basic health, and local physical infrastructure services.

### *Administrative culture*

Hajnal (2009) places the Hungarian administrative culture closer to the *Rechtsstaat* (legalist system) culture. In a *Rechtsstaat* culture the state is expected to fulfill a decisive integrative role in the society. Furthermore, such administrative culture is characterized by the presence of a large and distinct body of administrative law with a dominant role of law and legalism in the way the government thinks and acts. There is some further empirical evidence that legal thinking is a central component of the Hungarian public administration.

The way Law and Public Administration/Public Management relate to one another can be assessed on the basis of looking at how these subjects are studied and taught in academia. In this regard, Hungarian PA seems to be extremely legalist. A statistical analysis of PA-related academic programmes in 23 European countries identified three distinct clusters of countries: one characterised by a predominantly legalistic, one by a management oriented, and a third one characterised by an interdisciplinary approach to teaching PA. This analysis put Hungary, along with a number of Central/Eastern European and Mediterranean countries, into the group of countries characterised by an overwhelmingly (Public) Law-based approach to public administration (Hajnal 2003).

In analysing Hungarian administrative culture, examining the educational background of civil servants is also instructive. Empirical analysis of the subject concludes that graduates of Law still play a pre-eminent role in the Hungarian public administration. This claim is supported by two arguments.

First, they are strongly (by about 100 % in 2005) over-represented in sub-sets of higher importance, such as (i) among civil servants in managerial positions and (ii) in ministries. It is particularly peculiar that in its days, in the Senior Civil Service consisting of the highest ranking civil servants, 57 % of civil servants had a degree in Law (Gajduschek 2006 p. 605). Second, legal regulations make it clear that in practice, lawyers are definitely perceived as the most competent generalists of administration. Examples include the exemption rules on the so-called “specialised examination system” of civil servants compulsory for a large majority of administrators: only lawyers are exempted from the obligations of passing this – mostly legal type – exam. The situation is similar with the General Basic Public Administration Examination scheme (Gajduschek-Hajnal 2000).

In sum, on the basis of available evidence it can be concluded that Hungary lies much closer to the *Rechtsstaat* than to the public interest pole of the administrative tradition continuum. However, at the end of this brief analysis, a note of caution seems justified. A German, French or North European *Rechtsstaat*, naturally, differs from a Hungarian (or, for that matter, a Romanian or Greek) one in many respects. There is, however, a crucial difference possibly hampering the meaningful usage of the “*Rechtsstaat* vs. public interest” concept. Namely, deviations from the Weberian ideal of “law making – law enforcement” seem systematic and structural (as opposed to being chance errors or rare failures). In other words, the *Rechtsstaat* façade seems to cover a significantly different reality, whereby (i) legal norms are often trivially unable to serve any meaningful policy purpose as (ii) they were not intended to do so even by those having made them; but (iii) they serve latent purposes of small factions or of symbolic policy. Moreover, (iv) laws often are not implemented, as they were not even meant to be implemented – this would have often been clearly impossible anyway –, but the real content of the law is decided in the implementation phase, in which, factors such as state actors’ different interpretations of the law and conflicting micro-political interests, and selective/illegitimate law enforcement (or the lack thereof) play a central role.

### *Historical period of public administration*

Communist government is often seen as an omnipotent actor unilaterally superimposing its will on practically all segments of society with reckless effectiveness. This view dominated exclusively, and to a significant extent still characterises, the way administrative transformation has been/is perceived by international actors. A logical consequence of this premise is that a strong rolling back of the state and the empowerment of individual (citizen and market) initiative is a primary element of the transformation (cf. Gajduschek and Hajnal 2003; see also e.g. Hirschmann 2003, Jacoby 2001).

While this view indisputably has some merit, it does not fit well with the reality of many post-communist countries of the seventies and the eighties, including that of Hungary. Pre-transition Hungarian government was not “large and strong”, but rather “large and weak” (Sotiropoulos 2002). Central policies were made and implemented, not by a remote and unquestionable authority but, rather, through complex and subtle bargaining and interest mediation processes involving many territorial, sectoral and organisational players (Kovryga and Nickel 2004). Therefore, the governmental capacity - and especially the implementation/ administrative capacity – was severely limited even before the transition.

## **II. Political and Economic Reforms**

The first half of the nineties was characterized by the simultaneous problems of (i) economic transformation (abrupt breakdown of huge state owned enterprises and large-scale privatization of an often anarchistic character), (ii) constitutional/institutional transformation of the political system accompanied by a large extent of volatility, and (iii) acute fiscal crisis in all sub-systems of the public household.

These problems – especially the economic/financial ones – culminated in a radical shock therapy in 1996. This first period was characterized by extracting wealth from the population by means

of high inflation, radical downsizing of the government's role in providing public services, and efforts to create the institutional and policy prerequisites of a functioning market economy. From the late nineties, a process of slow but definite economic recovery started, first reaching mostly the middle and upper-middle strata but subsequently also some of the lower strata of society. This is to a significant extent attributable to successful development policies, both at the central level and at some regional centers, aiming at attracting foreign direct investment (Hungary was, for about ten years, the number one target country of foreign direct investment in the CEE region).

In the past two to three years, the achievement of the economic and monetary criteria of European Monetary Union membership has become a central socio-economic policy issue. This is partly because large-scale measures to improve the real income of households – such as a fifty-per cent across-the-table increase in public service salaries – has seriously exacerbated the fiscal burden on the public household, leading to an exceptionally high deficit in the balance of current payments (as indicated in the above table).

Much of what happened in the Hungarian public sector under the banner of PMR has been the result of dispersed, uncoordinated/"spontaneous" or decentralised ways, not packed neatly in any "reform packages". Since the primary focus of this report is the central government level, the difficulty is, to some extent, eased by the fact that a number of public management modernisation/reform initiatives of the government have been, throughout the entire period, announced in specific Government Resolutions on "Modernisation/Reform of Public Administration". In order to give a comprehensive and well-documented view of the reform packages adopted during the post-transition period, a computer aided qualitative analysis of these Government Resolutions was carried out. Some rough and tentative results of this analysis are briefly summarised below (for a more detailed analysis see Hajnal 2007).

In a temporal dimension, the overall level of "PMR activity", as measured by the number of reform measures, has been constant and high throughout the nineties. After 2001, this level decreased to less than 50 % of previous levels. Within this general class of PMR measures, two broad classes can be identified.

- The first one has much in common with the well-known, major items of the NPM agenda, such as downsizing of the state, or introducing elements of agencification, quality management,

performance measurement/management, or performance based compensation systems in the civil service.

- The second class of reform measures, coined “CEE specific”, consists of items falling outside the scope of NPM reforms, but having some sort of relatively distinct “local flavour” as they reflect more the specific needs and/or determination of transition countries. This class includes such elements as – often *l’art pour l’art* – legal fine-tuning or legal-structural retrenchment of existing institutions, improving the bureaucratic workflow and control in administrative organisations, or measures to achieve EU conformity of certain institutions or policies.

When comparing the relative proportion of these two classes, one may conclude that the share of NPM-type measures within the overall set of reform measures, has constantly been significantly rising; this is plotted in the below figure.

When looking beyond the main labels of NPM vs. CEE type reforms it seems that the composition of NPM-type measures has been changing throughout. In the nineties, the emphasis was on improving the quality of law-making and, more generally, of governmental decisions by employing various techniques of *ex ante* policy assessment. In the past few years, however, increasing emphasis has been put on issues of quality and citizen satisfaction and, more recently, to downsizing.

On the other hand, the composition of “CEE-specific” measures is relatively stable. It is interesting to note that only a very modest number of reform measures are justified by EU compatibility, although one should bear in mind that coding of the legal texts was based entirely on the explicit content, as opposed to the possible latent motifs of the policy makers.

The above analysis covered the government’s PMR agenda for the 1992–2005 period. From 2005/2006 on, however, the situation has sharply changed in several respects. Firstly, key decisions are no longer collated in Government Resolutions summarising the government’s PMR policy of the day. Rather, such decisions became the subject of numerous pieces of various types of legal measures as well as of semi-public and non-public documents such as strategy documents, operational programmes, and tender materials. Therefore, it became exceedingly more difficult to follow governmental decision-making in this field.

Secondly, there were significant changes in the actual PMR policy too. Namely, the post-2006 period saw unprecedented radical changes. In the absence of reliable empirical sources, it is

difficult to give an exhaustive overview of these changes, but – on the basis of mostly anecdotal evidence – two elements seem to be central to them:

- Downsizing. There are no reliable consistent data on the extent of the downsizing that has taken place since 2006 in the central, territorial and local offices of central government administration. (It is emblematic that the very system of national HR data collection in the civil service – on which earlier figures on the civil service are based – having existed since 1994, has stopped operations since it was not able to follow the structural and procedural changes.) One may, however, take the risk in saying that the across-the-table decrease in civil service employment in the territorial and local levels was well into the two-digit range, in some cases possibly even achieving 30 to 50 per cent.

- Reforming the human resource management system. In 2006 a high level official, responsible for preparing and implementing new HRM practices, was appointed in the Prime Minister’s Office. Having arrived from the corporate world, his leading ideas were closely tied to radically breaking away from the “outmoded” career type civil service characteristic thus far, and introducing corporate practices coupled with a harsh deregulation of civil service practices, an elimination of legal protection of civil servants’ status, and a radical change in the ruling culture of the entire civil service. Although these and some other related measures managed to achieve a significant practical impact, at the end of 2007 he had to resign from his position, leaving much of the pending changes, as well as initiatives, already on track without political and professional leadership (some more details follow in the sub-section on implementation).

### **III. Civil society and its development**

Civil society and community values have a long history in Hungary (and in most other countries in the region). In fact, there is a word – *kaláka* – that describes the mutual support of neighbors, relatives at different stages of life (houses built, crops gathered, children looked after, etc.) in rural Hungary. Furthermore, during the latter part of the socialism era, there was a large ‘second economy’ tolerated by the state as a pragmatic solution to the problems of state planning and limited resources. *Kaláka* in the villages and the shadow economy took off some of the pressures caused by the failing state economic planning system (North 2006).

After the political changes in 1989, both the second economy and the tradition of *kaláka* have largely disappeared. State-owned factories were privatized, and rural Hungary had to cope with a rapidly dwindling agricultural sector that could not compete with western (often subsidized) mass-production.

The weakness of post-socialist civil society allowed the governing politicians to run their governments in extremely partisan ways. As a consequence, the electorate has become polarized, where voters expect good treatment from the government if “their” party is in power (Rose-Ackerman, 2007). Interestingly, partisan politics has been increasing in dominance over time. This phenomenon may be explained by the peculiar nature of the Hungarian political transition from one-party system to democracy. During the late 80’s, in the so-called ‘round-table’ process, members of the ruling communist party, and the opposition agreed on a peaceful transition. The consensual approach, however, quickly dissipated once the different factions ran as individual parties for election. By the late 90’s, Hungarian politics was deeply polarized between the left (including the liberals) and the right.

Besides voting, there are other ways for the citizens to participate in public policy-making. A number of Hungarian laws in areas such as the education and environment mandate advisory councils. These are permanent bodies with shifting individual membership that have the right to review government proposals and sometimes initiate studies on their own (examples??). The recommendations of the advisory councils, however, are not binding for the government (Rose-Ackerman, 2007). In theory, before major policy changes, the parties affected (labor unions, employer’s associations, university student associations, etc.) are consulted, yet due to the highly partisan politics nature of the government most often the final outcome reflects the will of the political party in government rather than the preference of the affected parties.

The immediate post-socialist period witnessed a revival of the non-governmental sector. The newly acquired freedom of association triggered an explosion in the number of non-profit organizations. Initially, most of these organizations received support through international donors (foundations, international organizations, etc.). This support, however, dwindled as Hungary moved towards full market capitalism, and became member of the European Union. Arguably, as foreign foundation support is phased out, most of the NGO’s would have to rely on government support (or seek for private donors). The heavy reliance on government support



could make these organizations less willing to criticize government policies, which in turn further reduces civil society participation in public policy-making.

According to Rose-Ackerman (2007) there is a need for some basic institutional framework that allows and facilitates public participation and democratic accountability. These institutions are a nonexecutive president, a constitutional court, an independent audit office, and ombudsman “who not only takes individual complaints but can also initiate investigations,” an administrative court system, and an independent general prosecutor. At the time of this writing (December 2010), there are signs that some of these institutions are under pressure from the current ruling government party. For the first time since 1989, the president of the Republic is a close ally of the prime-minister (breaking with the unwritten tradition of electing someone with an independent political background). The parliament (with a 2/3<sup>rd</sup> governmental majority) limited the ability of the constitutional court to rule on fiscal matters (Financial Times, 2010). The country’s recently established Budget Office also faces pressures, and possible loss of its professional independence due to less than rosy predictions of economic growth and deficit. The latest blow to public participation and civil society comes in the form of the new media law adopted recently by the Parliament. The new law scrutinizes even the online contents, and allows the application of prohibitive fines. It also requires media outlets to apply for governmental registration – a practice reminiscent to some of the ex-Soviet republics (Népszabadság, 2010). Despite these recent events, the government still enjoys relative popularity among the population. This could be attributed to the general disillusionment with the market-based democratic system (largely associated with the west) that has replaced the socialist state. Twenty years after the fall of the communism, one third of the population still lives below the poverty line despite membership in the European Union (Associated Press, 2010).

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#### **IV. Human resource management**

After the Second World War, with the installation of communist rule in Hungary, the earlier regulations on civil servants were abolished since the communist government considered all employees as employees of the state (private companies were inexistent). With the launch of the

New Economic Mechanism (late 60s), government decision-makers gradually acknowledged the need for separate treatment of civil servants and other employees (working at state-owned companies).

After the fall of communism, successive governments tried to define and regulate the status of public sector employees. Separate laws were created for each type of public sector occupation: state and local government public administrators, “public employees” (primarily individuals working in education, healthcare), the army, judges, and prosecutors. For public administrators, the original legislation prescribed a traditional weberian bureaucracy model (i.e. promotion based on seniority, job stability, etc.). Since the mid-2000s, however, there is an increased emphasis on market-based human resource management approaches characterized by the introduction of entry tests, and reduction of job stability.

Thus, starting from 2009, civil service open competitions are used to select the candidates for the Hungarian public administration. The details of the exam are described in the Governmental Decision (kormányrendelet) of 126/2009. The new civil service exam –open to every citizen - replaces the old exam that was available only for the civil servants already in the system. The idea behind the new exam is to broaden the selection procedure and increase transparency in the selection process. There may be, however, possible problems with the new selection procedure. The new system does not require hiring based on the results obtained in the exam (employers do not have to select the laureates with the highest scores). Furthermore, the type of material included in the test, may in itself create a bias in the selection process; it may well be that the tests will have questions focusing on law (since the Hungarian public administration is overwhelmingly dominated by law-educated civil servants), which will give an unfair advantage to the already overrepresented lawyers (Linder, 2008).

After the successful open competition exam, the candidate should apply to one of the positions advertised by any of the governmental agencies. Then, the candidate is subject to a competency test that assesses the candidate’s suitability to the particular position. These competency tests evaluate the skills, experience, and knowledge of the particular applicant relevant to the position advertised. If the candidate is selected, then he/she is offered the position for a probationary period.

The performance evaluation of the Hungarian civil servants has been addressed at three different times. First, in 1992, the Law on Public Servants (1992, XXIII) prescribed the evaluation of the

administrators at least every four years, or whenever a promotion occurred. In 2002, the government introduced annual individual performance evaluation for every administrator. The goal of the new performance evaluation system was to increase the efficiency of the public administration system. The new performance evaluation was also linked to higher remuneration. Depending on individual performance, the immediate superior could recommend changes in the performance bonus anywhere between -20% to +30%. At the time of the introduction of the new performance-based evaluation system, the corps of the Hungarian public administrators had positive expectations. It turned out, however, that there were no funds set aside for performance-based pay in the consecutive budget appropriations. Furthermore, some agencies used performance evaluation, while others did not. In some cases, the limited amount of performance pay was distributed equally among the low-paid public administrators, leaving no funds for the true performance-based pay. In 2006, the government introduced a modified performance evaluation system (teljesítményértékelési rendszer – TÉR). While the earlier system was introduced immediately to the entire public administration, the new would be introduced gradually, and initially only to select categories of public servants. This latest effort, however, also contained elements that might create problems in the future. These elements (such as the individual level of competency or attitude towards work) might influence performance, but they are not part of the worker's performance per se. Thus, it could further distort the objective assessment of the job performance.

A limited number of civil servants are politically appointed public administrators. They usually work at the central administration as consultants or advisers to the elected politician. Prior to the 2006 reform of the public administration, their number was limited in 5 percent of the total public servants working in the particular agency. The new law increased the limit to 8 percent. They are usually appointed for the same period as the respective politician is in power.

1. Selection of workers and managers. Are there civil service exams? Are they effective or do they get circumvented?
2. Status of civil servants in society
3. Benefits and compensation

4. Relationship between civil servants and elected officials
5. Major reforms in recent years: brief description

Individual performance management: how is civil servants' performance evaluated?

## **V. Financial and Budgetary Management**

Hungarian public finances have experienced major difficulties ever since the early 1980's. The socialist state left behind a huge public debt; the first democratically elected government inherited the burdens of high interests besides the sudden collapse of the socialist economy. While the situation ameliorated with the economic growth of the late 90's and the austerity programs introduced in the middle of the same decade ("Bokros package" – named after the finance minister in office at the time), starting from the new millennium successive governments allowed lavish spending that ultimately led to serious indebtedness. The Great Recession found Hungary exposed and vulnerable; the country was among the firsts that needed the help of the International Monetary Fund and the European Union.

The public sector plays a significant role in the Hungarian economy. General government expenditures account for 49.2% of the GDP (2008).<sup>1</sup> The relative large share of the government does not necessarily mean better and more public services. In fact, Hungary's public administration is one of the least efficient among OECD countries (OECD, 2010). Total tax revenues account for 40.1% of the GDP (2008). The distribution of tax revenues among the major tax types is the following: 40% of the total tax revenues come from indirect taxes (consumption-based taxes such as sales or value-added tax), around 25% comes from direct taxes (primarily income taxes), and the rest are revenues for social security and healthcare (Benedek at al. 2004). While the size of the direct taxes (expressed as a percentage of the total GDP) is lower than for most other EU countries (Benedek at al. 2004), the tax burden falls on a much smaller active workforce. Employment rate in population aged 25-54 (arguably the most active cohort) is only around 74%.

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<sup>1</sup> All data is from the OECD Country Statistical Profiles, 2010 unless stated otherwise.

Tax rate on consumption is around 27% (EU-15 average is around 20%), while the tax rate on labor is 42.4% (EU-15 average is around 36%) (Data is from 2001. Source: Benedek et al. 2004). In both cases the burden of taxation is higher than in most EU countries.

The structure of the government expenditure (using 2002 data) is the following: approximately 55% is spent on welfare (education, healthcare, social security, housing, and other welfare spending), around 10% is spent on interest payments (on public debt), and the rest is roughly equally split between general government expenses (such as administration, police, defense), and economic (energy, agriculture, transportation, etc.) and environmental expenses (Source: Benedek et al. 2004). The large share of welfare spending suggests that the state plays an important role in income redistribution.

The Hungarian budget is administered based on the Public Finance Act of 1992. The budget is proposed by the government, and the Parliament's role is limited to minor reshuffling of budgetary appropriations between the line ministries, without substantively modifying the headline figures or correcting unrealistic estimates. The State Audit Office (the state's independent financial monitoring institution established in 1989) assesses the draft budget in the course of the parliamentary debate, monitors the implementation of the budget, and signals risks in relation to optimistic budget projections. The government, however, is not required to follow the SAO's recommendations, and it can use its own fiscal projections. The budget bill is usually approved in the week before Christmas, after which local governments start discussing their budgets until the end of March – which is well beyond the start of the fiscal year (Jankovics, 2008).

As mentioned earlier, by the second part of the 2000s the Hungarian economy and specifically, the public sector reached a highly vulnerable state. The high levels of spending by subsequent governments as well as liberal lending practices in the housing market have led to a rapid increase in public and private debt. Total external debt reached about 120% of GDP at the end of 2008, compared to less than 50% in Poland and 40% in the Czech Republic (OECD, 2010). In fact, the revelation that the government has been lying about the actual debt levels led to street riots in the fall of 2006. Thus, in fall 2007 the Government adopted a package of laws aimed to enhance fiscal sustainability of the country. The key elements of the reform package included the following: (1) fiscal sustainability defined as a new constitutional principle, (2) “no increase in real terms” rule for the gross central government debt, (3) limits on local government

borrowings, (4) establishment of the Legislative Budget Office for independent macroeconomic and budgetary projections, and (5) three-year nominal expenditure ceilings for budgetary chapters defined by the government (Source: Jankovics, 2008). The fiscal crisis of 2008 sped up the reform process, and a new caretaker government (led by the appointed prime-minister, Bajnai) implemented a series of painful fiscal reforms. In April 2010, however, as a result of the general elections the center-right party of FIDESZ gained over two-thirds of the parliamentary seats, and the right to form government. The newly formed government took additional steps to regain the country's fiscal sustainability, but some of these steps were highly controversial; the government imposed additional tax on the banks' profit, and merged the private pension funds into the public pension system. Some argue (Financial Times, 2010) that such move would be used to temporarily fill the gaps of the budget deficit.