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# Foreword

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## DISTINGUISHED READERS!

The rapidly changing challenges of our time such as globalization, financial and security crises require public sector to be responsive and competitive in contest of national, regional as well as global interests. Public governance must have the organizational and operational capabilities enabling the effective realization of national interests. The core of our Journals' mission is to encourage researches on the state built on the comprehensive, multidisciplinary, comparative and applied approach towards good governance and public service. On the one hand, basic researches shall provide a stable framework of state theory for public reforms while applied researches shall lead to actionable knowledge that can efficiently support public policy and governmental actions. Our Journal aims to enhance the development of public values and the integrity of public service through research and expertise in particular by strengthening public and business confidence in the public sector and public governance as well as by improving the competitiveness and innovation capacity of public service.

This publication includes several papers of the 22nd Annual Conference of the Network of Institutes and Schools of Public Administration in Central and Eastern Europe (NISPAcee) held in May 2014 in Budapest, and The 10 years in the European Union – the lessons learnt and new challenges International Conference which was also held in May 2014 in Budapest.

It is our pleasure to promote some of recently published books in English such as Hungarian Public Administration and administrative law (ed. András Patyi – Ádám Rixer) and four other outstanding books published by NUPS: European Economic and Monetary Integration, Good Governance, ICT Driven Public Service Innovation, and International Protection of human rights.

Hopefully you have shown interest to our publications and coming the next Pro Publico Bono we will welcome your papers to be published, too.

Pro publico bono!

**Norbert Kis**  
*editor in chief*

Ádám Rixer

## CIVIL ORGANISATIONS' PARTICIPATION IN LEGISLATIVE PROCESSES IN HUNGARY

*The relationship of the civil/non-profit sector and public administration may be examined from several specific aspects, but in our opinion these fields may be put into three – relatively – well distinguishable groups. Therefore, the relationship of administrative bodies with civil organisations may be identified in a) the creation of administrative programs and participation in legislation; b) the provision of public services, and c) the protection of rights. From these three this work undertakes to describe the aspect of civil participation in programme making and legislation in details, in a way that elaborates on the issue from the side of state administration.*

*The primary method of this research – due to the shortage of systematic scientific bases – cannot be anything else but the comprehensive collection of formal institutional facilities provided by Hungarian laws.*

*The paper distinguishes those special forms of participation which approach the legislator (a state administrative body participating in legislation) directly, and those institutionalised solutions through which the citizen or a particular (civil) organisation may influence the content of laws not by approaching the legislator (state administrative body participating in legislation), but through another state organisation.*

*It can be stated that the Hungarian legal system makes it possible to channel the direct and institutionalised participation of civil entities within program- and law-making activities of organs belonging to public administration, expressing their interests. Moreover, the Hungarian legal system has introduced developed and sophisticated mechanisms even compared to the international legal practice.*

*Real deficiencies can rather be detected concerning the material and legal consequences of different initiatives, the frequency of convening various corporate bodies, and mere formal mode of operating the particular mechanisms.*

*Furthermore, the trouble is that the civil/non-profit sector is strongly „infected” by direct partisan politics in Hungary: there is a large number of pseudo-civil entities and initiatives within the scope of activities of proposal-making, advisory and coordinative bodies. A special appearance of the abovementioned difficulties is the lack of strong and effective state-civil society joint mechanisms which aggregate and uphold Roma (Gypsy) interests.*

*In summary we can draw the conclusion that the individual segments of civil society, the political culture and also the administrative bodies participate in legislation i. e. their representatives must improve to comply with the already existing legal framework of statutory instruments.*



## 1. INTRODUCTION

Very different standpoints have been developed in the Hungarian literature regarding the features of entities that partly fill the territory between the state bodies and the narrower private sphere of the individual, and the boundaries of certain spheres (state, market and civil etc.). Many say a lot, from Tamás Sárközy to Éva Kuti, they place the dividing and fault lines elsewhere, but all of them agree that the question is very important also from the aspect of the state's performance ability as well.

Until the middle/end of the 2000s the state received serious critique, saying that the efficiency of the state organisation and within that the governmental direction is low because of the hyper proliferation of the background organisations and the constant intention aimed at the creation of half-state fake civil organisations (public foundations, public bodies, public companies).

While in the '90s and 2000s the majority of the authors condemned the state overload and the negative effects of the mesosphere, saying that it weakens civil activity, the compellingness to self-care, etc., today most of the criticism refers to the openly expanding state that draws the public duties to itself. Otherwise, in the latter case it is only the state – recognising that directly or indirectly it is almost a sole financer in many fields – that leaves out the local governments and / or non-profit organisations from the task fulfilment and financing process.

Apparently a process – serving parallel and same goals – is going on, in the frameworks of which the state consciously reorganises the legal status and the subsidy system of the organisations of the civil sphere that have potential roles in the fulfilment of public duties.

A civil organisation – at best – creates an institutional channel between society and the state, transmits society's needs and interests towards the state, on the other hand it forces the state to continuously legitimate itself and to increase the publicity of its operation. Civil society and political state cannot exist without each other, but both try to be superior to the other. Even in a way that it expropriates the traditional institutions and classic territory of the other „party”...

*One of the final questions is how far civil society can go in the participation of (political) decision making?* According to the general view the presence is desirable and subservient only in the decision preparation phase that presents both informal and institutionalised forms.

The popularity of the presently emerging (?) ideas of *good governance*, as well as their increased legitimacy is due not only to governmental effectiveness, but also to the closely related participatory governance. Plural, participative democracy provides for the participation of society and economic players, thus civil/non-profit organisations in satisfying common

social needs – beyond periodic elections and referenda – within the framework of the right to make recommendations, to be informed and to object, as well as in several ways within task provision possibilities. *This starting point – at least for the present – has not been significantly changed by approaches that refer to the increasing role of the state or to the newly created needs and demands arising from different crises.*

The relationship of the civil/non-profit sector and public administration may be examined from several specific aspects, but in our opinion these fields may be put into three – relatively – well distinguishable groups. Therefore, the relationship of administrative bodies with civil organisations may be identified in a) the creation of administrative programs and participation in legislation; b) the provision of public services, and c) the protection of rights. From these three *this work undertakes to describe in details the aspect of civil participation in programme making and legislation*, in a way that elaborates on the issue from the side of state administration.

## 2. METHODOLOGY

The analysis – or systematic presentation – of the consultative, coordinative or advisory, proposer, opinion-shaper institutions of public administration is completely missing within Hungarian administrative sciences *in spite of the fact* that in addition to hierarchic and merely market mechanisms several other horizontal, coordinative and service providing mechanisms have been established which led to the spread of different autonomous – and usually of low efficiency – structures in Hungary. Taking into account that many – if not all – of these entities and mechanisms are functioning by significant involvement of different civil (not-for-profit) actors, the main goal of my presentation has to be an introduction of the real weight and extent of this “sphere” by the collection and systematization of the existing forms within it.

*The primary method of this research* – due to the shortage of systematic scientific bases – cannot be anything else than the comprehensive collection of formal institutional facilities provided by Hungarian laws. This study makes an attempt at introducing all the forms appearing in the positive law in Hungary; especially those by which civil/non-profit organisations can take part in the preparation of administrative programs and in law-making processes weltering within the scope of public administration.

*Secondly*, and of course, facts deducible from the texts of laws must be compared with reality, with factual practices of administrative organs: the execution of legal provisions sometimes demonstrates “creative” interpretations, moreover the very same legal institutions are implemented with huge variances during different periods.

And finally, *as a third aspect*, broader approaches to legal and public policy must be involved: the basic features, historical processes and the dominant factors *de facto* determining law-making and the implementation of law in Hungary are to be shown.

Our study shall be commenced with the abovementioned aspect of public policy, outlining the most important phenomena of the last decades.

### 3. THE TRADITIONAL FEATURES OF HUNGARIAN PUBLIC ADMINISTRATION IN PUBLIC POLICY APPROACH

A starting point of this subchapter is that new Central-Eastern-European democracies established after 1989 did not build the political system on layered, sophisticated consultation procedures and institutional systems based on wide-scale social participation, but – almost exclusively – on the Parliament-centred policy formation structures operating on the principle of representation. Many believe that one of the great problems of societies getting out from under a dictatorship is that due to the lack of civil society filling in the space between individuals and the state during their socialisation, the members of these societies could never naturally learn to incorporate the identification of problems, the formulation of their interests, exchange their thoughts, the harmonisation of different opinions, due to which various problem-handling methods were not developed either. From public policy side it may be stated that in Hungary the legal and institutional requirements of representative democracy were fulfilled after 1990, but since then no material change has happened towards participative democracy; this means that Hungarian democracy ”has frozen into” the level of representative democracy.<sup>1</sup>

A further tendency, a feature which may be hardly separated from the one mentioned earlier is that the all-time state – formed after the transition – *imitates, reconstructs and replaces the civil sector* through its conscious efforts, by this making it weaker. During the analysis of this, it must not be forgotten that in the economic and sociological literature of the past one or two decades the state, by undertaking the ‘replacement’ and ‘simulation’ of the organisation of market and self-regulating social mechanisms and the political organisation of society, it eventually hampers the connection between political decision-making mechanisms and the actual fragmentation of the interests of society.

Based on the main features of public policy/administrative environment it must be stated about Hungary in advance that a) due to the traditional from ‘top-down’ system, a general – and tendency-like – weakness is the lack of democratic control, accountability and transparency; b) due to the politicised and instable practice of the reconciliation of interests, the quality of the decisions made in the public sector are often insufficient, as is their execution; c) public policy has balance problems; the weight and coordination of the relevant players are disproportionate and incalculable due to the extreme politicisation, and political predominance characterises the relationship of the political-administrative system and society, regardless; d) the final phase of public policy is missing; public policy processes begin but they often do not get to the end. There is no evaluation phase or closure.<sup>2</sup> Within the scope of the latter evaluation preliminary and subsequent impact studies are determinative, the main goal of which is grounding the decision-making situation of the legislator; so far the analysis expands the pool of factors the consideration of which is – or should be – essential for well thought-through,

1 Jenei, György. 2010. Adalékok az állami szerepvállalás közpolitika-elméleti háttéréről. [Supplements to the public policy – theoretical background of state participation] In *Államszerep válság idején* [State role in crisis]. Edited by Hosszú, Hortenzia and Gellén, Márton. Budapest: COMPLEX. 95.

2 Pesti, Sándor. 2001. *Közpolitika szöveggyűjtemény*. Budapest: Rejtjel. 206.

grounded decision.<sup>3</sup> In the Hungarian model of public policy decision making – as mentioned before – the ‘top-down’ approach is dominant, insofar as the institutional mechanisms of the involvement of interest protection-integrative organisations operate only formally.<sup>4</sup> It is inseparable from the latter fact that the traditional features of Hungarian political culture are paternalism, intolerance and the transformation of personal relations into political ones,<sup>5</sup> and last but not least the presence of corruption phenomena, which may be observed at a degree exceeding the average of the surrounding area.<sup>6</sup> Among the classic governmental failure phenomena – which is not traditionally Hungarian, but may definitely be observed here – the theoretical difficulties of setting and measuring public policy goals may be mentioned, as well as influence of strong interest groups, difficulties related to the size and complexity of governmental activities, and to the causal interconnection of certain public policy problems.<sup>7</sup>

In the 1990s – after the transition – there was a regrettable shift: during the transition to a market economy, the state withdrew from a number of fields, but during this ‘abolishment of the state’ several tasks could not be exposed to the profit-oriented processes of the market. These tasks were usually incorporated in the so-called non-profit sector, which was unfortunately mixed up with civil organisations both legally and practically: ‘It often happened that in complete sectors only the signboards were repainted, shifted from state to public utility status, while the old structure, the old system of operation, state financing and the old ‘expert’ staff remained.’<sup>8</sup> This environment, however, had a weakening effect on organised civil society, upholding its – unnecessarily strong – dependant status.

## 4. CIVIL PARTICIPATION IN PROGRAMME MAKING AND LEGISLATION

### 4.1. General Questions of Civil Participation in Programme Making and Legislation

Among the general pre-questions we shall refer to the fact that the narrowly viewed parliamentary section of legislation (which is not the subject of this work) and the section in which the contribution of state administration bodies is realised differ from each other, and the social organisations’ participatory rights and competences are also different in the two

3 In details see: *A Közigazgatás Korszerűsítésének kormánybiztosa által készített szempontok. „Részletes útmutató a hatályos jogszabályok utólagos és jogszabálytervezetek előzetes felülvizsgálatához.”* [Aspects prepared by the government commissioner of the Modernization of public administration. ‘Detailed guide to the subsequent review of valid laws and the preliminary review of draft laws.’] 1995. Budapest: Közigazgatás Korszerűsítésének Kormánybiztosa. 5.

4 Jenei (n 1) 95.

5 Kulcsár, Kálmán. 1995. *Politika és jogszociológia*. [Politics and legal sociology] Budapest: Akadémiai. 336.

6 [http://www.ey.com/HU/hu/Newsroom/News-releases/global\\_fraud\\_survey\\_2010\\_pr](http://www.ey.com/HU/hu/Newsroom/News-releases/global_fraud_survey_2010_pr) (accessed July 11, 2013).

7 Hajnal, György. 2008. *Adalékok a magyar közpolitika kudarcaihoz*. [Supplements to the failures of Hungarian public politics] Budapest: KszK ROP 3.1.1. Programigazgatóság. 33.

8 Pankucsi, Márta. 2012. *Civilekkel a civilekért – Az ellenzéki szerveződésektől a minisztériumon át a Furmann alapítványokig*. [With civilians for civilians – From opposition organisations through the ministry to the Furmann foundations] In *Civil társadalom és érdekképviselet Közép-Európában*. [Civil society and the representation of interests in Central-Europe] Edited by Simon János. Budapest: L’Harmattan – CEPoliti. 144.

phases.<sup>9</sup> Furthermore, there are significant differences between contributions to the decree making of state administrative bodies and of local governments.

*The possible ways of participation may be categorised from several aspects:*

Social participation in legislation has legally detailed (institutionalised) *forms appearing on the side of the legislator as obligation* (negotiations, forums, consultations and related basic feedback), as well as forms about which only general rules of the legal system may provide a starting point regarding their possible content or limits (organisation of demonstrations, requesting expert opinion, establishing an online debate forum, etc.), without having any legal minimum regulation about the 'observation' and utilisation of such information transmitted to the decision-maker this way, and therefore these have been primarily *regulated as possibilities of the potential users of these forms* (these forms are not in the focus of this work).

Among institutions establishing some kind of obligation on the side of the legislator, there are extremely diverse tools considering their 'features and scope', which show great diversity also regarding the degree and directness of the role they play in establishing the content of the final (normative) decision, or regarding the targeted level of decision making/legislation (local, national or European). It is worth noting that this work concentrates primarily on the institutions of civil cooperation operating at national level – for the sake of understanding primarily in the state administration/local government division.

The literature, in another approach, categorises the tools and techniques of social participation into two big groups, distinguishing between traditional techniques and modern techniques. Among the latter ones, for example, the use of surveys may be mentioned.<sup>10</sup>

One of the most obvious groupings of available tools (institutional possibilities) is – as mentioned above – the *traditional* division of direct and indirect tools: in this regard the notion of directness means, on the one hand, the institutions (typically in bodies) in which the representatives of civil society may express themselves directly and, may be able to make some decisions, while, on the other hand, directness may be used also in the sense that the civil organisation directly approaches the legislative body (thus in our narrow interpretation, the competent central state administrative body or the body of representatives) with its suggestion or opinion. In the latter approach the indirect feature also means the influencing of the public administrative legislative body through another legislative body or person.

The titles of the chapter and the sub-chapter intentionally do not focus only on the main characteristics and rules of participation in the narrowly interpreted legislation, but also wish to mention at least those practices (institutions) through which civil/non-profit organisations may perform activities – which may not be transformed into legal instruments, but fit into the frameworks of law – influencing the life of the closer/broader community and participate in the creation of documents (strategies, concepts, declarations, calls, etc.).

9 Vadál, Ildikó. 2011. *A kormányzati döntések konzultációs mechanizmusai*. [Consultation mechanisms of governmental decisions] Budapest: COMPLEX. 163.

10 Reisinger, Adrienn. 2012. *Civil/nonprofit szervezetek a kohéziós politikában – elméleti alapok*. [Civil and non-profit organisations in cohesion policy – theoretical background] *Tér és Társadalom* 40: 113.

Therefore, when for the sake of understanding legislation is mentioned, it shall be interpreted – in a broader sense – by taking into account the abovementioned.

*One of the most important pre-questions is how far civil society may go in participation in (political) decision making.* According to the general (majority) national opinion, its presence is reasonable and desired only in the preparation phase of decision making manifesting informal and institutionalised forms.<sup>11</sup>

*Within the analysis of regulations related to legislation, it may be observed that the regulation – especially with regard to the issue before us – is still very much diverse.*<sup>12</sup> Before 1 January 2011, there was no comprehensive act which could have attempted to provide unified regulation for the possibilities and procedures of the enforcement of social interests in governmental decision-making mechanisms. A unified set of regulations about social participation is still missing; even though Act CXXXI of 2010 on social participation in the preparation of laws “implies in its title that we are facing a unified regulation, but this is not the case. In addition to this, sets of acts and government decrees contain relevant regulations regarding this issue.”<sup>13</sup> Judit Tóth noted earlier that “The scope of tools related to the operation of the Government and the Office of the Prime Minister<sup>14</sup> is rather diverse. Their common characteristic is that they rarely form a unified system, and rather try to find supporters among civilians for the specific realisation of the goals of the given government.”<sup>15</sup> After reviewing the relevant valid regulations, we may arrive to a similar conclusion.

The significance of this scope of issues is magnified by the fact that in a plural social order more and more interests and values are formulated, the channelling of which into governmental decisions is unavoidable in order to uphold social peace. However, social participation in governmental decision-making mechanisms shall be legally settled, just like the hierarchy of laws. In a rule of law state social participation in legislative procedures is not an optional process depending on the attitude and discretion of the power holder. Moreover, in a democracy, especially one of the participative type, the institutionalised system of proposing and opinion making shall not only go through quantity changes (*‘more forums, better regulation’*), but also quality ones, which means that regarding these, normativity does not only mean the obligation to establish and create these institutions, but also *‘making them unavoidable’*, thus ensuring their development through tools protected by law.

To summarize, it may be stated that one tool for alleviating possible political abuses typical in indirect democracy is the substantial participation of citizens and their organisations in public administrative *decision making* (legislation and the lawful influencing of individual cases), and the facilitation of this in a constantly “broadening” scope.

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11 Sebestyén, István. 2004. Civil dilemmák, civil kételyek a civil szervezetek (köz)életében. [Civil dilemmas, civil doubts in the (public) life of civil organisations] *Civil Szemle* 28: 36.

12 Vadál (n 9) 170.

13 Ibid.

14 Tóth, Judit. 2003. Civilek részvétele a jogalkotásban. [Participation of civil society in legislation] In *Nonprofit jog*. [Non-profit law] Edited by Tóth, Judit. Szeged: SZTE ÁJK. 18.

15 Today *Prime Minister's Office*.

*In consideration of the before mentioned, that division may be the most obvious which*

- A) distinguishes those special forms of participation – regulated by law – able to influence legislation which approaches the legislator directly (a state administrative body participating in legislation), and
- B) distinguishes those institutionalised solutions through which the citizen or a particular (civil) organisation may influence the content of laws not by approaching the legislator (state administrative body participating in legislation), but through another state organisation.<sup>16</sup>

## **4.2. Civil tools in state administration directly influencing the legislator**

### *4.2.1. Direct participation in programme making and legislation without membership in bodies*

#### *I. Organisation of a national referendum proposal*

Act CCXXXVIII of 2013 on Referendum Proposal, European Citizens' Initiative and Referendum Procedure states that the proposal of constituents on setting the date of national referenda may be organised – among others – by associations as well, if the given question is connected with the scope of activities set forth in their articles of association.<sup>17</sup>

#### *II. Notice of public concern*

A notice of public concern directs attention to some circumstances the fixing or termination of which serves the interests of the community or the whole society. For our topic it is extremely important that the notice of public concern may contain *recommendations for legislation*. [Article 141 paragraph (3) of Act XXIX of 2004 on the amendment and repeal of certain laws as well as the establishment of certain regulations relating to Hungary's accession to the European Union]. The notion of complaint and notice of public interest, as well as the related deadlines are regulated similarly by Act CLXV of 2013 on complaints and notices of public interest to the way they were regulated before. However, there is a novelty in the regulation, namely that notices of public interest may be made in the protected electronic system of notices of public interest [Article 4 paragraph (1)].

#### *III. Social negotiation and opinions*

The two basic forms of social participation in the preparation of laws, *general negotiation* and *direct negotiation* appear in Article 7 of Act CXXXI of 2010 on social participation. The scope of the act covers opinion making by natural persons and non-state and non-local governmental bodies, organisations about draft laws and concepts of regulations grounding draft laws prepared by ministers. [Article 1 paragraph (1)] According to article 5 paragraph (5) of the act – with the exception of some laws made in fields listed in an itemised way in paragraph (3) (*e.g. draft law on the establishment of organisations or institutions*) – social ne-

<sup>16</sup> For example, the initiation of the procedure of the parliamentary commissioner of fundamental right based on Article 24 paragraph (2) point e) and Article 30 paragraph (1) of the Fundamental Law of Hungary.

<sup>17</sup> Article 2 paragraph (1) point c).

negotiation shall be initiated about the draft and reasoning of a) acts, b) decrees of government and c) decrees of ministers.

*General negotiation* provides for the possibility of giving opinion through the website of the body publishing the concepts or drafts (in forms obligatory for the body requesting opinion, e.g. by obligatory confirmation or preparation of substantial summaries), while the direct negotiation allows the relevant minister to request opinion directly from persons and *organisations*. The primary legal form of *direct negotiation* is the institution of *strategic partnership* – creating obligations also on the side of the minister – the framework of which is provided by an agreement determining several elements.<sup>18</sup> Through these agreements, the minister responsible for the preparation of laws may establish close cooperation with those organisations which are ready for mutual cooperation, and which represent wide-scope social interests in the preparation of the regulation of the given legal fields, or perform scientific activities in the given legal field (hereinafter referred to as strategic partners). A substantive weakness of the regulation is that Article 13 paragraph (2) of the Act defines only in an *exemplificative* way – mentioning only some of the possible forms of organisations (e.g. registered church, trade union, civil organisation) – with whom such strategic partnership may be established. Another specific (and problematic) rule is the one according to which the obligation of the strategic partner is to represent the opinion of organisations which are not strategic partners but operate in the given field of law [Article 14 paragraph (1)]. In some cases this could mean that the opinion of the 'rival' organisation operating in the given field should be represented fully and credibly.

Another important rule [Article 14 paragraph (2)] in this area is that in addition to the strategic partners the minister responsible for the preparation of the given law may integrate others into the direct negotiation of the relevant draft, and upon request it shall provide the possibility for participation in the review of the given law.

However, it shall also be mentioned that the minister responsible for the preparation of laws may resort to other forms in addition to the abovementioned two for conducting negotiation (primarily for getting to know the opinion of non-strategic members).<sup>19</sup> It is also

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18 A good example of strategic partnership is the strategic agreement established in November 2012 between Tibor Navracsics deputy prime minister, minister of public administration and justice, as representative of the Ministry of Public Administration and Justice, and László Csizmadia, president and the representative of the Civil Cooperation Public Benefit Foundation, providing the organisational background of CÖF (Civil Cooperation Forum).

19 It usually depends on the *ad hoc* decision of the ministries' management which draft law will be negotiated at public debate, conference and informal discussion, in order to discuss the text of the regulatory concepts and drafts. These forms usually happen in parallel with public administrative negotiation.

important that the abovementioned act allows the legislator to define other opinion-making and negotiation rights in other laws and legal instruments of state administration.<sup>20</sup>

For assessing the *real – practical – significance* of that legal institution it shall be considered that Article 5 paragraph (5) of the Act contains a special and often used rule, which states that “The draft of the law shall not be put up for social negotiation if exceptional public order requires its urgent approval”. Within the regulation and actual practice of national negotiation and review a significant aspect mentioned by literature is the *capacity of public administration* (insofar as with personal, technological and primarily temporal limits, the cautiousness of public administration may be easily explained). Therefore, the extension of the examined procedure with guarantee elements shall not result in disproportionate burden for state (administrative) organisations, *endangering applicability*.

The *real legal nature* of broadly interpreted social review is shown by certain constitutional requirements related to the social players of the preparation of laws. According to the statement of the *Constitutional Court* made in its Decision 469/B/1990 CC, if the organisations drafting the laws do not comply with the obligations set forth in the Act on *Legislation*, this violation of obligations in itself shall not be sufficient reason for assessing the unconstitutionality of the enacted laws. Such violation of legal regulations about the preparation of laws may only ground the state administrative or political responsibility of the legislator.<sup>21</sup> As the *Constitutional Court* expressed in its Decision 30/2000 (X. 11.) CC, only those organisations are unavoidable for the legislator, which are expressly and specifically named in law, which bear consensual or review rights and – due to their role in the democratic decision-making process, with regard to the negotiation obligations – they possess public power. If the act does not define expressly and specifically those organisations with review rights, but only regulates the review rights of the interested national interest-representative organisations in general, the *Constitutional Court* did not consider the lack of review procedure a violation of the rule of law [as later Decision 20/2001 (IV. 12.) CC referred back to this decision].<sup>22</sup> This practice has not changed significantly after the approval of the *Fundamental Law* and the new *Act on Legislation*.

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20 Beyond those set forth in the act on legislation – extending to strategic documents as well – there are rules among the provisions of Government Decree 38/2012 (III. 12.) on governmental strategic management about the social review of drafts. According to Article 15 paragraph (1) of the abovementioned decree, ‘If in relation with the given strategic document this decree regulates so, during preparation it shall be ensured for non-state actors to access the draft and express their opinion regarding it’. According to Article 16 paragraph (1) of the mentioned decree within social review drafts shall be published also on the government website determined in Article 1 point b) of Government Decree 301/2010 (XII. 23.) on the publication and review of draft laws and regulatory concepts (which theoretically means unlimited and free access) and is shall be ensured for everyone to express an opinion about it in a digital form (as well as about any other draft, as well). According to Article 19 paragraph (1) of the mentioned government decree the person responsible for the preparation of the strategic plan documentation may initiate negotiations about the draft with selected non-state actors, in addition to social review.

21 Vadál (n 9) 184.

22 Ibid.

#### IV. Lobby activities

Lobby activities are worth mentioning in a separate subsection, with special regard to corruption, which is quite significant in Hungary.<sup>23</sup> The regulatory activities of ministries, or in a broader concept, governmental legislation, make the institutions of the government targets of lobbying. The creation of the topics and target persons of lobbying is determined by – in addition to the general structure of the governmental decision-making system – the level of development of the institutional system and decision-making processes of the government, achieved in relation to the extension of the role taking of the state.<sup>24</sup> During the performance of their tasks, civil servants represent a public administration which is more open than ever, which maintains wide-scale professional and social relationship networks, which detects and reacts on influences coming from society to an increasing degree. The appearance of ‘public policy communities’ show that public law players frequently get into contact with each other, realise their common interests and act together when formulating their professional needs. Players composing these communities are familiar with the elements of public policy institutions and procedures, and know the real significance of factors influencing the public policy decision-making mechanism. Moreover, in Hungary it may also be observed that in order to increase the efficiency of the enforcement of interests, any decision which forms the conditions and elements of public policy procedures may become the subject of lobbying – even if it has distant relations with the given fields and requires legislation. These may be budgetary, institution organisational or personal issues (e.g. in some sectoral fields, interest groups do not represent strictly professional issues but strive to influence the appointment of executive officers). This is an important issue, *even though in European countries the strictly centralised management of public administration usually significantly keeps away external interest groups from decisions affecting the internal operation of public administration.*<sup>25</sup>

The aim of the Lobby Act submitted and approved in 2006 (Act XLIX of 2006 on *lobby activities*) was to channel the influence of business interest on public power (decisions) into legally regulated areas and make them controllable. Therefore it did not target all forms of the enforcement of interests, but only those which were performed by ‘professional’ lobbyists or *lobby organisations* based on a commission and against remuneration. The linking of strictly interpreted civil/non-profit organisations to lobby activities in Hungary is somewhat *difficult to understand*, because the scope of the previous act on lobbying covered only organisations performing lobby activities in a commercial manner (based on agreement, for remuneration) – thus did not concern the presentation of interests or arm twisting by organisations due to ‘commitment to their members’, ‘belief’, ‘patronage’, or ‘altruism’. Nevertheless several organisations which represent interests have operated as associations in Hunga-

23 *Közgazgatás Korrupció-megelőzési Programja 2012 – 2014*. [The corruption prevention programme of public administration 2012-2014] 2012. Budapest: KIM. 3-12.

24 Lékó, Zoltán, ed. 2002. *Lobbikézikönyv*. [Lobby Handbook] Budapest: Demokrácia Kutatások Magyar Központja Közhasznú Alapítvány. 25.

25 *Ibid.*

ry, and – within some limits – it has never been prohibited for them to perform some activities in a commercial manner.

*The act was valid for an exceptionally short period of time (only for four years):* among the reasons for its failure were the fact that the majority of those representing economic interests favoured the maintenance-support of self-regulation; the forcing of common law elements completely different from the Hungarian environment; institutions appeared which were not interpretable for Hungarian political, administrative and legal culture; owing to these factors, Hungarian public administration went into *passive resistance*;<sup>26</sup> furthermore, there was the *quasi lex imperfecta* feature of the act, as well as the insufficiency of control mechanisms outside of law. Still, the most determinative feature was the narrow substantial scope of the act, the fact that it wished to regulate one narrow aspect of the issue – easily eluded by covering material interests – at a high level, without listing or at least slightly regulating the other types of influence – extending the scope of lobby activities to those, as well. The previous regulation practically did not consider the fact that today only those organisations may achieve real results which have serious professional background and resources, and are able to keep up with the latest novelties of technological development – in each case through professionally organised transmission of information. The regulation considered lobbyists ‘in reality’, approaching the civil servant personally or by means of telecommunication, and neglected the more sophisticated, but very much influential, financed forms of pressuring [constant pressuring through ‘position papers’ summarising the official opinion, ‘grassroots type lobbying’ (when many write on the same topic under their ‘own name’), or certain indirect tools of ‘community relations’ improving the consideration of the organisation by the decision-makers were fully excluded from the regulation.]

It was the failure of the previous Lobby Act which showed that *in certain fields the state cannot intervene with its substitutive regulations even in the absence of self-regulation (which has been spreading significantly against central regulations):* in some social fields, permanent results may be achieved *only through the consistent stimulation of self-regulating mechanisms*, which is a slow and delicate solution, but lacks any alternative. This is the reason – partly – why the new lobby regulation creates *obligatory rules related to the enforcement of interests only on the side of the civil servant receiving the lobbyist (by this strengthening the integrity of public administration)*,<sup>27</sup> and otherwise it trusts itself to the already established criminal law barrier.

26 According to the report of the Justice Service of the Ministry of Public Administration and Justice prepared in 2012 the 307 registered lobbyists tried to ‘officially’ influence only 316 (!) state or self-governmental measures within four years. E.g. according to the report at the approximately 3,200 local governments the lobbyists approached the competent persons only in relation to 30 decisions within four years (!)...

27 Hungary undertook the obligation to establish *Codes of Professional Ethics* for civil servants and the employee protection public order approved by professional public bodies independent from the government. See Section 1 of Government Decision 1080/2013. (II. 25.) on the approval of the action plan about the obligations of Hungary within the international initiative of the Open Government Partnership.

ers (e.g. the crime of bribery).<sup>28</sup> In Hungary this concept – realising social realities – conflicted with the opinion of organisations regarding the previous concept. Thus *Amnesty International*, *Greenpeace*, the *Társaság a Szabadságjogokért* (Hungarian Civil Liberties Union, TASZ) and others approached the minister of public administration and justice with an open letter in 2012, complaining that after 2010 it was not regulated substantively how business associations and business interest groups may influence the possessors of public power: ‘Article 19 section b) of Act CXXXI of 2010 on *social participation in legislation* (hereinafter referred to as: SPL) annulled Act XLIX of 2000 on *lobby activities* without replacing it with proper regulations. The possibility of strategic partnership ensured in Article 13 of SPL concerns only a narrow field of the enforcement of interests. Through strategic partnership, ministries may establish direct relationship with those organisations ready for mutual cooperation which represent a wide range of social interests in the preparation of the regulation of the given legal fields, or perform scientific activities in the given legal field. This act is far from regulating lobbying properly. It provides exclusively for cooperation with the ministries, even though lobbying is more than participation in ministerial level legislation: each activity aiming at influencing a public power decision or at the enforcement of interests belongs to the scope of lobbying.’<sup>29</sup>

In summary it may be stated (and it is confirmed by the letter of TASZ) that in Hungary the notion of lobbying may be apprehended in broader context than commercial activities, and may be interpreted and regulated likewise.

#### 4.2.2. *Participation in Programme Making and Legislation Through Membership in Bodies*

##### 4.2.2.1. Consultation

###### *National definition of consultation*

In Hungary the broadest concept of consultation is used in a triple interpretation (or meaning): a) on the one hand, the broader meaning includes the most comprehensive forms of social negotiation and review [System of National Cooperation (NER), National consultation]; b) on the other hand, it includes the legal forms of negotiation and review described earlier; c) finally, it still includes the specific, described consultative forums, as well.

*The present sub-chapter uses the third – narrower, more traditional – meaning as its starting point.*

###### *General issues of consultation*

In relation to consultation, it may be generally stated that grounded decision making, quality governance and legislation require discussion with the interested parties, including con-

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28 It has been a debated issue in Hungarian public administration at what level and at what depth the professional ethical norms enforceable within public service shall be regulated; within the framework of the *Magyar Zoltán Public Administration Development Programme* – theoretically – the old approach is getting stronger again, which – within legal frameworks – would allow for the wide-scope self-regulation of those concerned.

29 <http://tasz.hu/jogallamvedo?page=2> (accessed May 10, 2013).

sultation. Consultation is the involvement of those concerned in the procedure of decision making in order to create real social negotiation. In this sense, therefore, the definition relates not only to negotiation in the preparatory phase, but also to the unique realisation of the shaping of political will, which happens in order to establish the content of the law based on compromise.<sup>30</sup> In the long run, social peace may be maintained by compromises through the politics of agreements. Governance may be 'successful and good' only if it takes into account the heterogeneity of those governed.<sup>31</sup>

The significance of consultation is also stressed by the Commission, which published an announcement about consultation, supporting the notion that during consultation each of those concerned should be allowed to properly express their opinion.<sup>32</sup> In most member states of the European Union separate permanent forums have been established for macro-level consultation which facilitate the continuous relationship between the government and social partners and other representatives of interests – without the burden of immediate agreements – and within this they get the chance to familiarise themselves with each other's opinion.<sup>33</sup> Beyond the narrow focus of issues related to the world of labour, this covers also specific policy issues. In member states, macro level consultations aiming at globally shaping the economy and social policy are usually hosted within the institutional frameworks of prestigious, dominant forums. Naturally, governmental-civil discussion shall also be part of social discussion. In addition to social partners, the representatives of civil organisations 'shall also be present in the work of the consultative bodies of macro-level negotiation of interests'.<sup>34</sup>

Nevertheless, 'it may be stated that the prestige of consultation is much lower in Hungary than in other member states'.<sup>35</sup> In Hungary the consultative role is often interpreted as of low value, failure – also in the self-evaluation, self-assessment of the players; as a synonym of *slow marginalisation in substantial* – macro level – *policy-making*. This same fact lies in the background of the fact that in Hungary consultation, negotiation, cooperation is basically agreement-centred, bargain-oriented. We shall also add that today in Hungary 'consultation is [often] not the indicator or instrument of values, but of relatively quickly changing interests'. A closely related phenomenon (fact) is that while in most of the old member states consultation is substantial (ensured by legal guarantees) and constant, in Hungary – traditionally – a lower level of regulation and 'ad hoc'

30 Drinóczi, Tímea 2010. Minőségi jogalkotás és adminisztratív terhek csökkentése Európában. [Quality legislation and the reduction of administrative burdens in Europe] Budapest: HVG-ORAC. 32-33.

31 Vadál (n 9) 57.

32 Towards a reinforced culture of consultation and dialogue – General principles and minimum standards for consultation of interested parties by the Commission. Communication for the Commission, COM(2002) 704 final.

33 Ladó, Mária and Tóth, Ferenc. 2002. A konzultáció és intézményei az Európai Unióban, tagállamaiban és Magyarországon. [Consultation and its institutions in the European Union, in its member states and in Hungary] Budapest: OEA. 192.

34 Bódi, György and Jung, Adrienn and Lakovits, Elvira. 2003. Civil partnerség. [Civil partnership.] Budapest: KJK-KERSZÖV. 190.

35 Ibid. 194.

character is dominant<sup>36</sup>, *a situation intensified by the exceptionally infrequent convening of certain forums.*

The regulation regarding bodies operating alongside the Government (and ministries and other public administrative bodies) is individual: generally the operation of each body is settled by separate law or legal instruments of state administration, which contributes to the fact that there is often parallelism or overlaps in their tasks and competences.<sup>37</sup> The functions of bodies operating beside the government are not always possible to separate; sometimes bodies with the same tasks operate under different names (e.g. inter-ministerial commissions or councils – see later). The main reason for these difficulties is that ‘in Hungary comprehensive, high-level framework regulations about the main types are still missing’.<sup>38</sup> We do not necessarily agree that the issue should be regulated in more detailed constitutional rules, but it seems obvious that a detailed regulation at the level of acts is necessary. *The more comprehensive regulation of consultative bodies is reasonable because the broadly interpreted governmental consultation goes beyond consultative bodies operating beside the government or ministries, and includes macro level forums independent from the governments, as well as territorial level mechanisms and specific bodies.*

It must also be added that ‘By today a complex system of governmental consultative bodies has been established in all modern public administrative systems’.<sup>39</sup> However, despite their significance and quantity, the social sciences pay relatively little attention to these institutions, having a role in the shaping of governmental decisions, ‘[even though] almost invisibly a new sector has emerged, the operation of which is essential for the quality of governmental activities and is also important for their transparency’.<sup>40</sup>

It should be noted that there is no good name for this system of organisations in Hungarian law. The expressions ‘background institutions’, ‘auxiliary organisations’, or ‘consultative organisation’, ‘institutions of social dialogue’, as well as ‘proposer-review organisations’ are (may be) imprecise and deceptive, especially because in some cases these – very diverse – organisations possess public power-like competences in addition to the narrowly interpreted consultative rights.

Therefore it is necessary to scientifically define the various types of these organisations and clarify – in a comparative manner – their role in public power decision making (the preparation of laws), and due to the lack of any laws to generally regulate their participation in the governmental decision-making system, with regard to their importance (see later).

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36 Ladó and Tóth (n 33) 193.

37 Vadál (n 9) 80.

38 Ibid.

39 Vadál (n 9) 17.

40 Ibid.

### *Grouping of consultative bodies*

For the transparency of governmental consultative<sup>41</sup> bodies, they may be grouped according to the following actors:<sup>42</sup>

- a) the scope of participating organisations (e.g. delegating member);
- b) their features of civil cooperation;
- c) their method of selecting members;
- d) the legal regulation of the institution;
- e) the features and content of the members' rights;
- f) the frequency of application; and
- g) the phase or level of governmental activities to which each is related.

#### *Ad a) Types of governmental (state administrative) consultative bodies based on their members*

Based on the scope of the participating bodies (organisations) Vadál distinguishes between *internal consultative bodies of governmental activities and external consultative bodies of governmental activities*. In the first one, she lists those institutions and procedures (e.g. government commissions, cabinets and inter-ministerial commissions), in which only state bodies participate and the representatives of civil society (non-state bodies) are usually not present among the members. Into the latter grouping she lists those bodies within which, in addition to the representatives of governmental bodies, the institutions of the widest range of civil society are present: such as social organisations, representatives of interests, professional and expert organisations, representatives of science, professional chambers, etc. Within this grouping it is important that 'through these bodies, the interconnection between governmental activities and the activities of organisations interested in and concerned about decisions may be established. Through these bodies, the presentation of interests, their collision, striving for consensus, and the professional and scientific grounding of decisions may be realised'.<sup>43</sup>

There is another grouping similar to Vadál's which, as one method of the presentation and enforcement of specific aspects of interests – is significant in the preparation of governmental decisions – at each level and area of governmental activities [partly sectoral (strictly professional) and partly functional (beyond the aspects of certain sectors)], which

- a)enforces the given (public policy) interests by establishing an independent coordinative mechanism or body (mainly relying on the staff of the state administration), or
- b)introduces the institutional solutions – including external actors – of 'transmitting information' related to interests 'into governmental activities'.<sup>44</sup>

As it has been mentioned before, both types of organisations may be put into the group of so-called governmental auxiliary bodies the 'common feature of which is that part or all of

41 In lack of other indication primarily consultative bodies operating next to central state administrative bodies are in the focus of the analysis.

42 Vadál (n 9) 60.

43 Ibid.

44 Balázs, István. 2011. Magyarország közigazgatása. [Hungary's public administration] In Szamel, Katalin, Balázs István, Gajduschek György and Koi Gyula, eds. *Az Európai Unió tagállamainak közigazgatása*. [Public administration of the European Union's member states] Budapest: COMPLEX. 745.

their activities is related to the governmental decision-making procedure with the aim that these decisions shall be well-grounded from all – professional, legal and political – aspects and the delivered decisions shall be used also in reality.<sup>45</sup>

Based on the abovementioned facts, it is clear that the two types of organisations are not ‘identical’: while the second – theoretically – serves the observation, aggregation of interests and their transmission to the decision-makers, the first one performs the channelling of the revealed interests, and the professional preparation of their presentation in the drafts of different programs and legal instruments, as well as their negotiation and concretisation within public administration. However, the majority of practical difficulties well interpretable from the side of civil society result from the lack of regulation and the conflict of existing regulations related to the tasks and composition of these two ‘types of organisations’ and their relationship, with regard to the fact that the two types of bodies exist simultaneously. For example, the two consultative bodies for the representation and facilitation of the management of Roma issues have been established accordingly, but the relationship between the Inter-Ministerial Committee for Social Development and Roma Issues<sup>46</sup> and the Roma Coordinative Council<sup>47</sup> has not been clarified; it is hardly interpretable and less transparent, based on government decisions and practical experiences.

This situation is further complicated by the fact that within the *internal negotiating mechanisms of state administration* (at the meeting of the Government performing final coordination, or in different coordinative and consultative mechanisms, bodies) the representatives of civil organisations (may) appear directly in several ways. For example – to continue with the abovementioned example – according to the Government Decree establishing the Roma Coordinative Council ‘[The] Government calls upon the leaders of central state administrative bodies to ensure, in case of laws related to the social development of Roma people defined in the legislative programme of the Government, the possibility to provide opinion for the [civilian and non-civilian] members of the Council within the public administrative ne-

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45 Ibid.

46 Within the scope of the examined field the Inter-Ministerial Committee for Social Development and Roma Issues supports those written in section a) herein. The Government established the Inter-Ministerial Committee for Social Development and Roma Issues for improving the standard of living and social status of Roma people and those living in poverty and for the harmonisation of governmental activities aiming at facilitating their social integration. The primary task of the Inter-Ministerial Committee for Social Development and Roma Issues – based on Government Decision 1199/2010. (IX. 29.) on the establishment of the Inter-Ministerial Committee for Social Development and Roma Issues – is to harmonise activities related to social development, to make recommendations for the Government for the harmonised planning of the resource needs of tasks related to the social development and for the supervision of finances, as well as to coordinate and evaluate the execution of governmental tasks aimed at improving the standard of living and social status of Roma people and those living in poverty and at facilitating their social integration.

47 An institutional realisation of those written in section b) herein (in the examined field) is the Roma Coordinative Council established by Government Decision 1102/2011. (IV. 15.) on the establishment of the Roma Coordinative Council, which was established by the Government based on social partnership for the establishment and execution of measures facilitating the effective development of the Roma population, as well as for rendering an opinion about the results. The Roma Coordinative Council is an advisory, consultative body supporting social development, and in line with the aims of the Government it is a specific forum for transmitting information related to the interests of the concerned social groups into governmental work.

gotiation.' Furthermore, Section 49 of Government Decree 1144/2010. (VII. 7.) on the rules of procedures of the Government must be mentioned, according to which the undersecretary for administration of the Ministry of Public Administration and Justice may invite external persons – for example representatives of civil organisations – to the meeting of the undersecretary of administration; and its section 59, based on which persons – for example representatives of civil organisations – invited personally by the Prime Minister may participate at the meeting of the Government.

Ad b) *Basic types of governmental (central state administrative) consultative bodies – from the aspect of civil cooperation:*

1. bodies ensuring membership-like civil participation<sup>48</sup> (mixed system);
2. bodies composed of the delegates of only (central) state administrative bodies (e.g. Sulinet Expressz Programme [Internet at Schools Express Programme] Project Council<sup>49</sup>) – without civil organisational rights;
3. bodies composed of the delegates of only (central) state administrative bodies – with the possibility of direct channelling of civil interests;<sup>50</sup>
4. bodies composed exclusively of experts – without direct and expressed civil participation;<sup>51</sup>
5. no civil member, but civil organisations may make suggestions for the appointment of members (their opinion is requested in a formal procedure, e.g. Hungarian Design Council<sup>52</sup>).

Ad c) *Main forms of establishing membership:*

1. ministerial request and appointment – without civilian cooperation (e.g. recommendation) before the appointment;
2. ministerial request and appointment – with the possibility (right) for civilian recommendation;

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48 The expression 'civil participation' primarily means those cases when the natural person participating in a consultative body is representative of a civil organisation, not in his own name, directly due to his professional expertise gained at the given field.

49 Government Decree 283/2003. (XII. 29.) on the tasks and operational rules of the Sulinet Expressz Programme Project Council.

50 The president of the Inter-Ministerial Committee for Social Development and Roma Issues may invite other people – typically representatives of Roma civil organisations – based on the founding legal document.

51 See for example the composition of the Scientific Committee set forth in Article 6 paragraph (1) of Government Decree 112/2011 (VII. 4.) on the (...) scientific committee supporting the work of the National Atomic Energy Office.

52 For the appointment of the members of the National Design Council (MFT) the president of the National Office of Intellectual Property makes a recommendation, for the creation of which he requests the opinion of related professional and interest representation organisations [Article 2 paragraph (2) of Government Decree 266/2001 (XII. 21.) on the Hungarian Design Council].

3. submission of a declaration of unilateral accession,<sup>53</sup> and declaration of will<sup>54</sup>;
4. nominating a specific civil organisation in a normative source of law (e.g. HUNGARNET Association<sup>55</sup>, or earlier the National Association of Hungarian Artists);
5. with election based on the candidacy system.

It is important that the abovementioned types do not cover all types operating in practice, with special regard to the fact that the mechanisms of selecting (civilian) members and of the establishment of membership are not fixed in each case. *A practical difficulty which has been mentioned in the literature for a long time* is that in institutions (bodies) where there are provisions about the selection of civilian members, we usually only find the description of activities the performance of which allows organisations to participate, ‘but it is [often] left in the shadow what the exact mechanism is for their selection’ and what methods may be used for ensuring the democracy of the procedure.<sup>56</sup> This deficient legal regulation allows the government (any government, not just the current one) to arbitrarily select from among organisations formally complying with all conditions, not necessarily paying attention to their real social significance and professional preparedness.

*Ad d) Legal regulation of consultative bodies – from the civil point of view:*

Open legislation may become *counterproductive* if ‘the processing of opinions and the feedback procedure are not regulated and managed properly’ – says Vadál.<sup>57</sup> Mentioning these elements is especially important regarding the domestic – external – consultative bodies, because *these communication aspects provide the basis of most practical difficulties.*

*Ad e) Rights and tools available for the civilian member or for the body with civilian member:*

1. review;
2. recommendations;
3. negotiation of interests;
4. preparation of decisions;

53 According to Article 1 of Ministry of Human Resources Decree 50/2012. (XII. 19.) on the National Patient Forum any civil organisation may join the section of the National Patient Forum (herein after referred to as: NBF) in line with its activities with a declaration of accession sent to the Board of the NBF if the civil organisation operates in compliance with act on civil organisations and performs its activities in the field of health care.

54 According to Article 2 paragraphs (1) and (2) of Government Decree 65/2000. (V. 9.) on the establishment and detailed rules of the operation of the Charitable Council, the public benefit organisations performing charitable tasks which want to become members of the Council may submit a related declaration of intent to the minister – and the minister shall automatically provide credentials for the representatives of those organisations which comply with conditions set forth in Article 1 paragraph (2) and have submitted their declaration of intent.

55 Section 1 of Government Decision 1129/2013. (III. 14.) on the establishment of the National Information Infrastructure Development Programme Council and the definition of its rules of procedure the Government established, as proposer, review and advisory body the National Information Infrastructure Development Programme Council, and its section 6 requests – among others – the president of the HUNGARNET Association to participate in the work of the Programme council as a permanent member.

56 Héthy, Lajos. 2010. *Civil beszéd vagy “párt-beszéd”?* [Civil speech or “party-speech”?] Budapest: Napvilág.

57 Vadál (n 9) 162.

5. decision making;
6. coordination;
7. analysis and evaluation of execution;
8. lawsuit.<sup>58</sup>

Among – public power-like – rights which go beyond traditional consultative rights (the right to information, the right to negotiate, the right to make recommendations, the right to give an opinion) those shall be mentioned through which decision making power is divided between the public administrative body (typically the Government) and the consultative body.<sup>59</sup> In such cases the original possessor of the decision making right, who is responsible for decision making, cannot deliver the decision on its own, because the concerting right (co-decision making right) of the mentioned body limits this. Naturally, in such cases the original possessor of the decision-making right cannot fully delegate the right to decision making or its responsibility for the decision (and the liability for its possible consequences), but with the self-regulating ‘delegation’ of certain elements of decision making it may ensure substantial participation and unavoidable control-possibility to the representatives of the targeted groups. A good – though as yet theoretical – example is the Framework Agreement established between the Government of Hungary and the *National Roma Self-Government* [NRSG], based on which ‘Within their cooperation the Government and the NRSG establish a draft government decree, in which they define the certain fields of intervention and the participants of the co-decision agreement and together with the bodies appointed for co-decision-making define the co-decision-making mechanism relevant for the given field, by taking into consideration, and keeping in line with, the valid EU and national procedural regulations’. In an exemplificative manner, the Framework Agreement defines those fields in which it wants to give to the NRSG effective and substantial rights for the enforcement of interests: ‘The Government establishes the co-decision system primarily in the fields of programs aiming at the expansion of employment, increasing standards of education and improving standards of living, as well as of scholarship programs, investment and employment supports.’ It is clear, therefore, that the decision-making and co-decision-making rights may primarily contain partial rights related to tenders, funds, or personal issues, sometimes not in a substantial manner, but ‘only’ in form of veto<sup>60</sup> or ‘quasi veto’, these latter ones covering the elements which, for example, allow for the postponement of decision-making or the suspension of the execution of the delivered decisions.<sup>61</sup>

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58 The rule defined in Article 25 paragraph (7) of Act XXVI of 1998 on the rights and equal opportunities of disabled persons, according to which against those violating the rights of disabled persons defined in law the National Council for Disabled and the national interest representative organisations of disabled persons may initiate a lawsuit.

59 Vadál (n 9) 61. and 86.

60 The exclusive recommendation right and the right to initiative, as well as the right to consent and the decision bound to a certain voting rate may be considered as such.

61 For details see: Rixer, Ádám. 2013. *A roma érdekek megjelenítése a jogalkotásban*. [Emergence of Roma interests in legislation] Budapest: Patrocinium. 158-160.

Ad g) *Types of consultative bodies related to certain governmental levels:*

We may distinguish between bodies established beside non-local-governments based on whether they were created by the Government or independently from it. The best example for the latter is the National Economic and Social Committee established by Act CXIII of 2011 on the *National Economic and Social Committee*, which was created with the aim of discussing comprehensive ideas related to economic and societal development and national strategies existing through governmental cycles, and facilitating the elaboration and realisation of harmonised and balanced economic growth and the related social models. The Committee was established as a *consultative, proposer and advisory body independent from the Parliament and the Government*, and as the complex and most diverse consultative forum of social dialogue between organisations representing employers' and employees' interests, economic chambers, civil organisations operating in the field of national policy, national and foreign representatives of science, and churches defined in a separate act.<sup>62</sup> It is worth noting that the solution is not unique in Hungarian legal development.<sup>63</sup> It is important that independence from the government does not mean that during the activities of the forums, opinions of the Government and civil organisations cannot be directly in conflict or that the government cannot be substantially 'influenced' in some ways.<sup>64</sup>

In addition to the most comprehensive consultative mechanism(s), consultative bodies operating beside the Government and certain central state administrative bodies form a separate category; these partly appear in classic, sectoral fields (health care, education, social issues, economic issues<sup>65</sup>, etc.), and partly may be identified as intersectoral fields (e.g. see the before mentioned Roma issue).

In addition to consultative bodies operating beside or 'between' central state administrative bodies the territorial consultative bodies, or *bodies with a consultative type of tasks* shall be mentioned, the majority of which may be characterised as so-called quasi state administrative bodies. These may also be called atypical mixed bodies, insofar as they appear nei-

62 Article 2 paragraph (1) of Act XCIII of 2011 on the National Economic and Social Council.

63 The Economic and Social Council – *which has always operated in an unstructured way and without substantial rights* – was established in the building of the Parliament on 24 August 2004, and wished to remain a professional forum independent from the government and party politics 'by discussing long-term national, strategic issues'. In the Council, national trade unions and employers' interest representatives, and representatives of chambers, investors, *civil organisations* and science were present as members. The GSZT expressly aimed at being the forum of national consensus seeking to rise above everyday political fights. In this institution the different sectors were allowed to present their opinions about issues the nation was facing that would determine long-term development.

64 For example, based on Article 153 paragraph (1) of Act I of 2012 on the Labour Code, the Government shall receive authorisation to define in decree – after consultation in the National Economic and Social Council – about a) the lowest obligatory wage and b) the amount and validity of the guaranteed wage minimum.

65 See for example Government Decision 1166/2012. (V. 22.) on the reorganisation of the budget estimate from reserves available for extraordinary governmental measures in order to ensure the resources necessary for the performance of the tasks of the Corporate sector and the Government's Permanent Consultative Forum.

ther as fully state administrative, nor fully local-governmental, syndicate types of bodies.<sup>66</sup> It is true in general that the main reason for their existence is that the presentation of general and local interests, abilities and expectations could not be possible or reasonable at the same time at other forums or scenes. These creatures may be described as territorial cooperative mechanisms – typically aiming at programme making – insofar as they primarily try to act as forums for the exchange of opinions and for dialogue between civilians and local-governmental and state administrative (types of) bodies. They are usually without organisational independence, but they are usually independent in executing their tasks and competences. Examples of such mechanisms are the *Regional Social Policy Committees* or the *Regional Tourism Boards*.

#### *Summary statements and general conclusions in relation to consultation*

It is an assumption in legal literature – which goes beyond our specific subject – that the relationship of the established forums for the preparation of decisions and for negotiation, their specific role and significance should be clarified in law.<sup>67</sup> For a long time the main question has been whether in the case of decision-making mechanisms supplemented with mainly informal, ‘customised’ elements, the strictness of the legal regulations (deeper and more accountable than today) – and of the transparency and higher level of legal security theoretically achievable by this – would impose great difficulties in reaching substantial compromises and using practical ‘quickly reacting’ methods. It may be stated that the difference mechanisms aiming at the preparation of decisions should be formalised through more detailed legal provisions than today.<sup>68</sup>

Among further difficulties, on the one hand, the low level of professional preparedness and material resources of social players (the latter may appear, for example, in relation to the costs of preparing an expert opinion), and, on the other hand, as the capacity deficiency of the governmental side, the lack of such civil servant staff – specialised in negotiating activities – in central public administration may be mentioned.

### **4.3. Tools Influencing the Legislator Indirectly, Through Other Bodies**

Here those possibilities will be presented through which the citizen or the civil organisation influences the contents of laws enacted by competent public administrative bodies by approaching not the legislator but another state organisation. In some cases, these mechanisms may make the chances of influencing the legislator rather indirect, and sometimes – as will

66 Patyi, András and Varga, Zs. András. 2012. *Általános közigazgatási jog (az Alaptörvény rendszerében)*. [General administrative law (Within the system of the Fundamental Law)] Budapest: Dialóg Campus. 329.

67 See for example Trócsányi, László. 1993. *Közjogi változások és a rendszerváltás*. [Public law changes and the transition] *Magyar Közigazgatás* (1993) 7: 5.

68 Kéri, László. 2001. *A kormányzati döntéshozatal szervezetszociológiai nézőpontból*. [Governmental decision-making from organisational sociology point of view] In *Közpolitika. Szöveggyűjtemény*. [Public Policy Reader] Edited by Pesti, Sándor. Budapest: Rejtjel. 218.

be shown – quite distant (*through the initiation of the review of the content of the given law, which may lead to the annulment of the law or legal regulation by the Constitutional Court*).

Such tools may be, among others,

1. *Constitutional complaint*. According to article 24 paragraph (2) section c) of the *Fundamental Law*, based on the constitutional complaint the *Constitutional Court* – which may be approached also by the civil organisation concerned about the given issue – reviews the harmony of the law used in the individual case with the *Fundamental Law*;
2. *Initiating the procedure of the parliamentary commissioner for fundamental rights*. According to article 24 paragraph (2) section e) of the *Fundamental Law*, upon the initiative of the Government, one-fourth of the members of Parliament, the president of the *Curia*, the *Chief Prosecutor* or the *parliamentary commissioner for fundamental rights*, the *Constitutional Court* reviews the harmony of laws with the *Fundamental Law* within the frameworks of subsequent norm control. The related procedure of the parliamentary commissioner of fundamental rights may be initiated by anyone, in line with article 30 paragraph (1) of the *Fundamental Law*.

## 5. CONCLUSION

It can be stated that the Hungarian legal system makes it possible to channel the direct and institutionalised participation of civil entities within program- and law-making activities of organs belonging to public administration, expressing their interests. Moreover, the Hungarian legal system has introduced developed and sophisticated mechanisms even compared to the international legal practice.

Real deficiencies can be rather detected concerning the material and legal consequences of different initiatives, the frequency of convening various corporate bodies, and *mere formal* mode of operating the particular mechanisms.

Furthermore, the trouble is that the civil/non-profit sector is strongly „infected” by direct partisan politics in Hungary: there’s a large number of *pseudo*-civil entities and initiatives within the scope of activities of proposal-making, advisory and coordinative bodies.

A special appearance of the abovementioned difficulties is the lack of strong and effective *state-civil society joint mechanisms* which aggregate and uphold Roma (Gypsy) interests.

In summary we can draw the conclusion that the individual segments of civil society, the political culture and also the administrative bodies participating in legislation i. e. their representatives must improve to comply with the already existing legal framework of statutory instruments.

## POLICE IN DIVERSE SOCIETY

*In the past about 50 (in Eastern Europe 20-25) years society and police has been through two dramatic changes; political changes and turning into multicultural, diverse society. The responses of society, of politics and the police to these circumstances were quite different, regardless, that the international and EU institutions facing the problems tried to formulate the adequate requirements (Parliamentary Assembly Assemblée parlementaire RESOLUTION 690 (1979) Declaration on the Police; COUNCIL OF EUROPE COMMITTEE OF MINISTERS Recommendation Rec(2001)10 of the Committee of Ministers to member states on the European Code of police Ethics).*

*During the process of the political changes the role of police in society was reconsidered; it “was no longer viewed as dangerous, unsavory, diversionary, and politically retrograde, but as key component of social stability and economic development” (Bayley, D.). And now, the most important question is: how is it possible to create an organization that strengthens democracy’s values and norms in its structure and function, and is able to answer the new challenges of the diversity?*

*Diversity means differences in the backgrounds or lifestyles, it relates to gender, age, language, ethnicity, cultural background (multiculturalism), disability, sexual orientation or religious belief. Diversity also means differences in other aspects; in educational level, job, socio-economic background, personality profile, geographic location, differences in interest and differences in political conviction. That is why every society has its special conditions, which affect the responsibility of the politics and the police.*

*States have different styles and strategies when it comes to dealing with diverse groups within their borders. Concerning these circumstances the presentation will analyse these strategies, their theoretical background (principle of multiculturalism, inclusion, integration), aims (first of all the sustainable development) bad and good practices, and the possible societal responses (acceptance; prejudice, societal conflicts; hate crime). In case of the analysis of a diverse society security aspects should also be taken into consideration. The police strategy and philosophy must be harmonised with the democratic responses of politics on societal diversity; police need an adequate education in order to meet these requirements.*



### INTRODUCTION

The relationship between police and society is one of the most exciting questions in democracy. In an autocratic political system the police is a simple device in the hands of a narrow

political élite group; it plays the role of the exterior control over society; the regulation of police's activity, the status, structure and philosophy of police are static and strictly regulated.

In a democracy the police have to meet the requirements of the permanently changing society, and as a consequence of it, the police has to be renewed continuously. The effectiveness of the police's work and the police's social prestige indicate above all how successful this continuous renewal process is. In other words: In a dictatorship the police check the society; in a democracy the society checks the police.

The effectiveness of crime investigation surely remains an important indicator, but crime prevention is not less important. The diversity of contemporary society gives us freedom in all fields of life. But it has to be taken into consideration, that the circle of the safety risks broadened in comparison with the dictatorships' forcibly homogenized societies' risks.

Police has to find the adequate responses to these challenges – efficient structure; new methods; new investigation protocols; and first of all, suitable partners, allies, which are able to share the responsibility of the maintenance of the security with the police. Without knowing society in details which they serve, police officers will not be able to fulfil their tasks. We have to speak about society in an extended sense because we are citizens of the EU as well; we live in a globalised world; that means: societal and security challenges have already become international.

This article focuses on the comparative analysis of the influence of contemporary society's new challenges on the police, and also touches on how their consequences, political and professional responses appear both in police culture, in police education.

## 2. POINTS FOR PRACTITIONERS

Responding to the diversity of the 21th century's society, social scientists prepared an initial working list of the skills required of citizens who will be called to function effectively in such society. The most important points from this list are:

- Awareness of reciprocity in relationships and processes operating in the world.
- The ability to work together across cultural and class lines, disciplines, professions, and interest groups.
- The ability to see things in their totality.
- An understanding of the forces and dynamics that contribute to personal, group, and societal conflicts.

The point is to articulate a new basic set of multiculturally oriented civic competencies we ought to include in the curriculum, struggle with, and learn about, and upon which we must fulfil our personal and professional commitments.<sup>1</sup>

“Socialisation makes us members of our society. It instils in us the values of the culture and brings society into our self-definition, our perceptions of others, and our understanding of the world around us. Socialisation is not, however, a uniform process (...) In a society

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1 Morris, Michael M.: Education Citizens for Multicultural Society. Public Leadership Education: Skills for Democratic Citizenship, Kettering Foundation, 1990.

as complex and diverse as the United States, no two people will have exactly the same experiences. We can find similarities between us, often across vast cultural differences, but variation in social context creates vastly different socialisation experiences.”<sup>2</sup>

A policeman is also one part of democratic society. His personal socialisation binds him to one or another group of society. At the same time, his vocational socialisation may not be successful without understanding and paying continuous attention to the society’s inner relations.

“Socialisation is a lifelong process (...) and creates the capacity for role-taking, or put another way, for seeing ourselves as others see us. Socialisation is fundamentally reflective; that is, it involves self-conscious human beings seeing and reacting to the expectations of others. The capacity for reflection and the development of identity are ongoing. As we encounter new situations in life, we are able to see, what is expected, and adapt to the situation accordingly. Socialisation creates the tendency for people to act in socially acceptable ways.”<sup>3</sup>

A policeman will be able to act in a socially accepted way, if he has an overview from the conflicts and processes going on in the society, and is convinced in his status and role in society. The present article, and all information which serve the understanding of the reasons and nature of diversity and of multiculturalism, help to develop not only the new competences expected generally from the citizens, but also the development of the special vocational competences:

- Recognise real and potential conflict situations in the diverse European society
- Plan adequate police responses in different societal scenarios and apply shared good practices
- Understand and be able to work in a multicultural environment.

Finally, these elements will lead to understanding and accepting the necessity of a common European police culture.

### 3.MEANING AND PERCEPTION OF DIVERSITY

The society of the 21 century is very diverse but the interpretation of the diversity is different in the EU countries. The features of society’s diversity are:

- differences in the backgrounds or lifestyles
- diversity relates to gender, age, language, ethnicity, cultural background (multiculturalism), disability, sexual orientation or religious belief
- differences in educational level, job, socio-economic background, personality profile, geographic location, etc.
- differences in interest
- differences in political thinking

As we see diversity and the multiculturalism are not synonymies. Multiculturalism is perhaps the most important element of the diversities features, yet, only one of the character-

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2 Margaret L. Anderson, Howard F. Taylor: Understanding a diverse society. Belmont, USA. 2008. Thomson Learning Fourth Edition. p 97

3 p 85-86

istics of diverse society. The importance of the existing elements of diversity is different in different societies and communities. The reasons of the differing perception and interpretation of diversity are mainly:

- the historical and cultural peculiarities of the given country or of a certain region, of a small settlement, of a big city, or of a social group.
- the different legal background of the EU countries.

If we compare the EU countries' inner relations on the basis of EUROSTAT statistics<sup>4</sup>, we see that because of historical reasons, the living standards and the GDP/person are lower in the former socialist countries; the national capitalist group is relatively small, the middle class is narrow and weak, a considerable part of society lives near the poverty line. This is true although the level of the education is not lower, what is more, in some cases higher than that in the western countries. Analysing the data of the table below, it is clear that women's existential perspectives, even in case of professionals, are worse, than the men's in many cases. Surprisingly, that is also the case in the developed countries, where the GDP/person is quite high, yet a considerable part of society faces the risk of poverty. It happens mostly in countries where the number of immigrants is relatively high and their integration into society is difficult.

The perception of diversity and the social response to it is different also because of different experiences of the citizens. It's not surprising, if we compare peoples' experiences in a small town somewhere in Eastern Europe, where people live nearly on the same living standard, the settlement is not affected by migration, and the inhabitants have never been forced to accept people from any different culture, with peoples' experiences in a big metropolis, where there are dramatic existential and cultural abysses between the different groups of inhabitants and immigrant communities.

The principle of equality does not come true in modern democracies, neither on the national nor on international level. The only opportunity to maintain societal balance is the provision of equal rights and chances for the citizens, together with the democratic ethical principles of tolerance and each others' mutual acceptance, and the prohibition of discrimination, as it appears in the European Convention on Human Rights. "The enjoyment of the rights and freedoms set forth in this Convention shall be secured without discrimination on any ground such as sex, race, colour, language, religion, political or other opinion, national or social origin, association with a national minority, property, birth or other status."<sup>5</sup>

Regarding the police, the most important question is: how is it possible to create an organization that strengthens democracy's values and norms in its structure and function, and is able to answer the new challenges of the diversity?

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4 <http://epp.eurostat.ec.europa.eu/portal/page/portal/statistics/themes>

5 European Convention on Human Rights Article 14, p 12 [http://www.echr.coe.int/Documents/Convention\\_ENG.pdf](http://www.echr.coe.int/Documents/Convention_ENG.pdf)

*Population, living conditions and education*

	At-risk-of poverty rate (%) <sup>(3)</sup>		Early leavers from education and training (%) (5)	
	Male	Female	Male	Female
EU-28	16.3	17.5	14.4	10.9
Euro area (EA-17)	16.3	17.7	15.9	11.7
Belgium	14.2	15.4	14.4	9.5
Bulgaria	19.5	22.8	12.1	13.0
<i>Czech Republic</i>	8.7	10.5	6.1	4.9
Denmark	13.3	12.9	10.8	7.4
Germany	14.9	17.2	11.3	9.9
Estonia	16.8	18.1	14.0	7.1
Ireland	15.4	14.9	11.2	8.2
Greece	22.5	23.6	13.7	9.1
Spain	22.2	22.1	28.8	20.8
France	13.6	14.6	13.4	9.8
Croatia	19.4	21.6	4.6	3.6
Italy	18.1	20.7	20.5	14.5
Cyprus	12.9	16.4	16.5	7.0
Latvia	19.3	19.1	14.7	6.3
Lithuania	18.1	19.0	8.1	4.6
Luxemburg	14.7	15.6	10.7	5.5
Hungary	14.2	13.9	12.2	10.7
Malta	14.4	15.5	27.5	17.6
<i>Netherlands</i>	9.5	10.6	10.2	7.3
Austria	13.5	15.3	7.9	7.3
Poland	17.1	17.1	7.8	3.5
Portugal	17.5	18.2	27.1	14.3
Romania	21.9	23.2	18.0	16.7
Slovenia	12.5	14.6	5.4	3.2
Slovakia	13.2	13.3	6.0	4.6
Finland	12.9	13.6	9.8	8.1
Sweden	12.7	15.7	8.5	6.3
United Kingdom	16.0	16.5	14.7	12.4
Iceland	8.4	7.5	23.6	16.5
<i>Norway</i>	9.6	10.5	17.6	11.9
Switzerland	14.4	17.3	5.7	5.3

EUROSTAT<sup>6</sup>

<sup>6</sup> Basic figures on the EU First quarter 2014 [http://epp.eurostat.ec.europa.eu/cache/ITY\\_OFFPUB/KS-GL-14-001/EN/KS-GL-14-001-EN.PDF](http://epp.eurostat.ec.europa.eu/cache/ITY_OFFPUB/KS-GL-14-001/EN/KS-GL-14-001-EN.PDF)

#### 4. DIVERSITY AND MULTICULTURALISM

The European development had a differing direction many times in the course of the history in Eastern and in Western Europe.

Western Europe	Eastern Europe
<p>15-16. Century Colonization, early capitalist development</p>	<p>15-16. Century Feudalism, second serfdom, turning into a colony</p>
<p>17-18. Century Industrialisation <b>State-nation's development</b> – Its legal definition is the result of the French revolution – Indivisible unity of the individuals is the sole owner of the sovereignty – The nation is identical with the state</p>	<p>19. Century Late capitalist and industrial development, national liberation movements, unfinished national state development. <b>Culture-nation's development</b> – Ethnocentric national identity – The nation and the state's concept are separated from each other</p>
<p>20. Century Immigration, development of <b>multicultural society</b> – Characterizes modern metropolitan societies – There are big existential and cultural differences</p>	<p>20. Century Emigration, <b>multi-ethnic society</b> – Different ethnic groups were living together for a long time in the historical past. – There are no big cultural abysses between them.</p>

As a result, the composition of societies differs not only because of the diversity of their actual interest groups and fault lines but also because of their communities' cultural background.

One reason for distinguishing between indigenous (traditional ethnic and national) and immigrant minorities is that they present different political and ideological challenges to the state. Indigenous minorities challenge the state to reform its constitutional structure so as to allow them some degree of autonomy within a defined territorial space. Immigrant minorities do not seek a special legal status on the grounds of an historical claim to territory, but they challenge the state to rethink the basis on which it accords rights and protection to all its citizens. This is, in some way, a more fundamental challenge, since it cannot be dealt with simply by the re-writing of constitutional arrangements in the interests of decentralisation, devolution or federalism. The way states respond to the ethnic diversity created by immigrant minorities is a product --usually an ad hoc and unplanned product-- not only of the changing nature of migration flows but also of the individual state's view of itself as a civic and moral community. We can distinguish three different models of "belonging" that have been influential in the history of nation-building in Europe. For the "Ethnic" model, belonging to the nation means sharing common descent, language and culture. For the "Republican" or "Civic" model it means willingness to accept political rules and to adopt the national culture. For the "Multicultural" model it means adherence to political rules, but with the ability to maintain cultural differences and to form ethnic communities and associations.

These models should be regarded as “ideal types” because, in practice, elements of all three may be identified in most states.<sup>7</sup>

Speaking about culture, we understand it in an extended sense, including not only the language, traditions, but the vocational culture and its technical level as well.

The “multiethnic” and “multicultural” are not synonymous concepts, they may overlap or may differ, but anyway, both are related to the regulation of individual and collective rights inside a given country. The characteristic and relevance of problems, caused on one hand by historical minorities, and on the other hand by immigrant communities are very different in the different EU countries; partly because of historical reasons, partly because of current political and economical reasons. In Germany and France, for different historical reasons primarily the large migrant communities which cause problems, in England and in Spain both the historical, and the immigrant communities, while in Eastern-Europe even now primarily the historical minorities. Here is the question, what place receives the minority question in the process of the realisation of European Union’s universal aim; to become the society of prosperity, freedom, security and justice.

Multicultural society is a consequence mainly of migration. The Special Rapporteur of the Commission on Human Rights has proposed that the following persons should be considered as migrants:

- a) Persons who are outside the territory of the State of which they are nationals or citizens, are not subject to its legal protection and are in the territory of another State;
- b) Persons who do not enjoy the general legal recognition of rights which is inherent in the granting by the host State of the status of refugee, naturalised person or of similar status;
- c) Persons who do not enjoy either general legal protection of their fundamental rights by virtue of diplomatic agreements, visas or other agreements.<sup>8</sup>

This broad definition of migrants reflects the current difficulty in distinguishing between migrants who leave their countries because of political persecution, conflicts, economic problems, environmental degradation or a combination of these reasons and those who do so in search of conditions of survival or well-being that does not exist in their place of origin. It also attempts to define migrant population in a way that takes new situations into consideration.

The number of immigrants is permanently increasing. In 2012 more than 1,665,900 long-term immigrants appeared in the territory of the EU. The main target countries were mainly; UK, France, Belgium, Netherlands, and the southern countries; Spain, Italy and Greece.<sup>9</sup> According to the data of the 4th Annual Report on Immigration and Asylum (2012) “on 1 January 2012, the EU’s total population was 503.7 million, an increase of 1.3 million from 2011 which is equivalent to an annual rate of +2.6 per 1000 inhabitants made up of a natural increase of 0.4 million (+0.8‰) and net migration plus statistical adjustment of 0.9 million (+1.8‰).”

7 David Turton, Julia González: Ethnic Diversity in Europe: Challenges to the Nation State [http://www.humanitariannet.deusto.es/publica/PUBLICACIONES\\_PDF/03%20Ethnic%20Diversity.pdf](http://www.humanitariannet.deusto.es/publica/PUBLICACIONES_PDF/03%20Ethnic%20Diversity.pdf)

8 UNESCO International Migration and Multicultural policies [http://www.unesco.org/most/migration/glossary\\_migrants.htm](http://www.unesco.org/most/migration/glossary_migrants.htm)

9 <http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&language=en&pcode=tps00176&plugin=1>



an Parliament on how migration can be more effectively managed to contribute to economic growth.”<sup>11</sup>

The EU recognised the relevance of migration and mobility and decided to develop a comprehensive approach and framework to manage them. In accordance with the recommendations the GAMM – The Global Approach to Migration and Mobility – “should be based on four equally important pillars:

- 1) organising and facilitating legal migration and mobility;
- 2) preventing and reducing irregular migration and trafficking in human beings;
- 3) promoting international protection and enhancing the external dimension of asylum policy;
- 4) maximising the development impact of migration and mobility.”<sup>12</sup>

It is not surprising, that the immigration and the minority question became one of the key issues of European politics. This problem can have a link to any other questions. Society needs suitable societal and political answers in connection with its fault lines; ethnic groups, religion, existential poverty, employment, education, etc., and obviously, the diversity is in connection with the social response in other areas of diversity as well; gender, sexual orientation, etc.

## 5. POLITICAL AND SOCIETAL RESPONSES ON DIVERSITY EFFECTING THE POLICE

The societal responses, the legal and institutional background and the police’s structure, philosophy and culture are in close connection with each other. In an ideal world these three elements are in harmony with each other; society generally follows the most important values of democracy, rejects prejudice and discrimination; legal background assures the sustainability of these values; and the police acts as a real law enforcement institution. However, the general experience is that although the legal background is a guarantee of democratic values; in society and in the activity of the institutions and of the police as well, prejudice and discrimination appear. It is not the diversity that causes social conflicts but the inequalities and conflicting interests, which can be connected with it.

In the case of Gender-based diversity the essential question is the role of the man/woman in society (labor market, public and political life) and in the family. Women may have more job opportunities or to take part in social life in an industrialized democratic country. But even in these countries we can observe differences on the basis of economy (high tech industry, agriculture, extractive industrial branch, service industry); of religion (Islam, Catho-

11 Communication from the Commission to the European Parliament and the Council [http://ec.europa.eu/dgs/home-affairs/e-library/documents/policies/immigration/general/docs/4th\\_annual\\_report\\_on\\_immigration\\_and\\_asylum\\_en.pdf](http://ec.europa.eu/dgs/home-affairs/e-library/documents/policies/immigration/general/docs/4th_annual_report_on_immigration_and_asylum_en.pdf)

12 COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE AND THE COMMITTEE OF THE REGIONS The Global Approach to Migration and Mobility /\* COM/2011/0743 final \*/ <http://eur-lex.europa.eu/legal-content/EN/ALL/?jsessionid=jwVKTDSLmpZkR0K2RqGmzpkGjwjW4VvkhDwhPxf1j8LqlqVdnYL0!1039788642?uri=CELEX:52011DC0743>

lic Church); possibilities on the labor market – part time job, high-position possibilities for women; of equal earnings; of the social supply, of the family support, etc. As a result of a research in the UK stated:

“In many ways there is now greater symmetry between women’s and men’s lives, but the convergence has been principally one sided, with women being partially assimilated into the largely unmodified masculinised model of working to a greater extent that men have been assimilated into the feminized world of domestic reproduction and care. This asymmetric convergence together with continuing gender segregation and a gender pay gap, especially in part time work, contributes to enduring disadvantages to women in the labour force, in their life time earnings, and in retirement incomes. The extent of both gender inequality and disadvantage vary by social class and ethnicity but effectively the costs of reconciling paid work and family life continue to be borne by women.”<sup>13</sup>

In the EU 27 member states in 2012 on average, a mere 15.8% of board members and 16.8% of non-executive board members of the largest companies listed on stock exchanges are women. Women are barely visible among top business leaders – more than 96 out of 100 company presidents are men. The progress is very slow: Across the EU, the proportion of women on corporate boards increased by 2.2 percentage points between October 2011 and October 2012 – the highest year-on-year increase recorded since EU-wide data were first collected in 2003 and well above the long-term average of 0.9 percentage point per year since 2003. In 2012 more than five out of every six board members are men (84.2%). Only the countries’ legislative quotas can help the antidiscrimination process: the proportion of women on the boards of Italian companies has nearly doubled reaching 11.0% in October 2012, from 5.8% in October 2011. This change is prompted by the legislation adopted in July 2011, which requires publicly listed and state owned companies to have at least one third of the under-represented gender on both management and supervisory boards by 2015.<sup>14</sup> This illustrative example covers of course only one field of the discrimination against women.

Concerning Sexual orientation based diversity European societies are through a very long period of fight against prejudice in this field, and also now the regulation of the issue and the level of the acceptance of the different sexual orientation are very different in the EU countries as well. Another problem is that the different ethnic and religious communities’ response is based mainly on prejudice. According to the data of ILGA the consequences of the regulation are worldwide different:

- Persecution 76 countries and 5 entities: death penalty/imprisonment
- Protection 58 countries and 60 entities: anti-discrimination laws
- Recognition 32 countries and 30 entities<sup>15</sup>

13 Perrons , Diane: Women and Gender Equity in Employment. Patterns, progress and challenges. Institute for Employment Studies 2009. p 11 <http://www.employment-studies.co.uk/pdflibrary/wp23.pdf>

14 Gender equality in the Member States Women on boards – Factsheet 2 European Commission [http://ec.europa.eu/justice/gender-equality/files/womenonboards/factsheet-general-2\\_en.pdf](http://ec.europa.eu/justice/gender-equality/files/womenonboards/factsheet-general-2_en.pdf)

15 Lesbian and gay rights in the world [http://old.ilga.org/Statehomophobia/ILGA\\_map\\_2011\\_pride.pdf](http://old.ilga.org/Statehomophobia/ILGA_map_2011_pride.pdf)

Concerning ethnic and cultural diversity there is quite a significant difference in the bases of the integration political theories, which influence the on those built practices. Again and again comes up the question, whether individual or/and collective rights have to be ensured; what is the minimum/maximum of the acceptance of diversity. One solution is multiculturalism. Multiculturalism, and multicultural society, have been recommended as a new model for societies whose populations have become increasingly multi-ethnic through immigration. Multiculturalism also represents a growing rejection of policies or public pressures calling for assimilation. Multiculturalism is not a consistent philosophy, concept or practise: it presents a rather confusing picture of quite heterogeneous meanings and policies. The basis of multiculturalism is: countries should recognise that they have become target countries of immigration; they should recognise the need for immigration; and they should accept the political, cultural and social consequences. The following eight policies are the most common or emblematic forms of immigrant MCPs:

- Constitutional, legislative, or parliamentary support of multiculturalism, at central and/or regional and municipal levels
- The adoption of multiculturalism in school curricula
- The inclusion of ethnic representation/sensitivity in the mandate of public media or media licensing
- Exemptions from dress codes, either by statute or by court cases
- Allowing of dual citizenship
- The funding of ethnic group organizations to support cultural activities
- The funding of bilingual education or mother-tongue instruction
- Affirmative action for disadvantaged immigrant groups<sup>16</sup>

Multiculturalism, and multicultural society have been recommended as a new model for societies whose populations have become increasingly multiethnic through immigration. Multiculturalism also represents a growing rejection of policies or public pressures calling for assimilation. According to this concept “cultures need not be considered a coherent whole, since a collective entity can exist, without essentialised notions of membership and definition (p. 97). Cultures based on religions, should be seen as any other identity group, and indeed use similar rhetoric as gay, feminist or racial groups (p. 70). Therefore, multicultural equality ‘when applied to religious groups mean that secularism simpliciter appears to be an obstacle to integration and equality’ (p. 78) and religions need to be recognised in the public sphere.”<sup>17</sup>

Currently on EU level the rights of diverse groups, communities of society are protected with non-discrimination directives and decisions. “Protection from discrimination under the EU non-discrimination directives has a varied scope:

16 Will Kymlicka: MULTICULTURALISM: Success, Failure, and the Future. Queen’s University February 2012 [www.migrationpolicy.org/transatlantic](http://www.migrationpolicy.org/transatlantic).

17 George Iordanou: Modood’s Multiculturalism: a Civic Idea <http://iordanou.org/blog/modoods-multiculturalism-a-civic-idea>

- race and ethnicity enjoy the widest protection, being protected in relation to accessing employment, the welfare system and goods and services;
- sex discrimination is prohibited in the context of access to employment, social security (which is more limited than the broader welfare system) and goods and services;
- sexual orientation, disability, religion or belief and age are currently only protected in the context of access to employment.
- The ECHR contains an open-ended list of protected grounds. Anyone can invoke the ECHR before domestic authorities, courts and, ultimately, the ECtHR.”<sup>18</sup>

## 6. NEW CHALLENGES OF THE POLICE WORK AND POLICE EDUCATION

The most important results of the survey “Perspectives of the police science in Europe” were the following:

- “Globalisation and migration are leading to social and ethnic conflicts in urban areas, where the police have to find solutions in cooperation with other local agencies...
- During the nineties, the Commission of the European Communities already stressed the need for a European approach to co-production of urban safety...
- Policing a multi-ethnic society with many problems in the labour market needs skills of police officers that are grounded in the academic fields: communication, cooperation, networking in the community, strategic ways of thinking and operating. Thus, the police profession has become more complex, demanding better training, and especially, better research.”<sup>19</sup>

Modern, globalised society requires the police to tailor its role, structure and philosophy according to the needs of society. The democratic relation between society and the police and the transfer of democratic values into police work mostly in the community police’s model can be realised. “First the Declaration on the police” defined the elementary and general rules of the police activity:

1. “A police officer shall fulfil the duties the law imposes upon him by protecting his fellow citizens and the community against violent, predatory and other harmful acts, as defined by law.
2. A police officer shall act with integrity, impartiality and dignity.
3. Summary executions, torture and other forms of inhuman or degrading treatment or punishment remain prohibited in all circumstances.
4. A police officer shall carry out orders properly issued by his hierarchical superior, but he shall refrain from carrying out any order he knows, or ought to know, is unlawful.
5. A police officer must oppose violations of the law.

<sup>18</sup> Handbook on European non-discrimination law. FRA 2010 p 85 [http://fra.europa.eu/sites/default/files/fra\\_uploads/1510-FRA-CASE-LAW-HANDBOOK\\_EN.pdf](http://fra.europa.eu/sites/default/files/fra_uploads/1510-FRA-CASE-LAW-HANDBOOK_EN.pdf)

<sup>19</sup> Perspectives of the police science in Europe. Final Report 2007 [https://www.cepol.europa.eu/fileadmin/website/Research\\_Science/PGEAPS\\_Final\\_Report.pdf](https://www.cepol.europa.eu/fileadmin/website/Research_Science/PGEAPS_Final_Report.pdf)

7. No criminal or disciplinary action shall be taken against a police officer who has refused to carry out an unlawful order.”<sup>20</sup>

In the former communist countries and in other countries which took big steps into the direction of new democratic development also the police’s orientation changed from serving regimes to serving society. During the process of the political changes the role of police in the society was reconsidered; “was no longer viewed as dangerous, unsavory, diversionary, and politically retrograde, but as key component of social stability and economic development” And now, the most important question is how it is possible to create an organization that strengthens the democracy’s values and norms in its structure and function, and is able to respond to the new challenges of diversity.

On this way of the democratic development the police has to follow basically four principles:

1. “Police must be accountable to law rather than to government.
2. Police must protect human rights, especially these rights that are required for the sort of political activity. That is the hallmark of democracy.
3. Police must be accountable to people outside their organisation. (The rule of law is an empty promise if the police cannot be accountable for it.)
4. Police must give top operational priority to serving the needs of individual citizens and private groups.”<sup>21</sup>

Regardless the key principles of democratic police, we know that the structure and philosophy of the member states’ police organisations differ in:

- the community police’s perception and its practice,
- the vocational standard of the police work,
- the ethic norms and how to meet them,
- perception of human and minority right,
- the opportunities of crime prevention and its standard,
- the existence of internal and exterior security risks (among others risk of terrorism),
- the cultural components of the police activity, including the stereotypes and prejudices, etc.

Taking into consideration the political priorities of the Stockholm Programme (which will not change regardless of the new strategy from 2015) the diverse European societies need a „greater coherence between external and internal elements of the work in the area of freedom, security and justice. In order to foster a genuine European judicial and law enforcement culture, it is essential to step up training on Union-related issues and make it systematically accessible for all professions involved in the implementation of the area of freedom, security and justice.”<sup>22</sup> The most important aim of a democratic police is; to build up mutual trust between the police and citizens, and to have better communication and permanent dialog with the society.

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20 Parliamentary Assembly RESOLUTION 690 (1979)[1] on the Declaration on the Police  
<http://assembly.coe.int/Documents/AdoptedText/ta79/ERES690.htm>

21 Bayley, David H.: Chaging the Guard. Developing Democratic Police Abroud. 2006. Oxford University Press p 19-20

22 The Stockholm Programme  
[http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:52010XG0504\(01\):EN:NOT](http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:52010XG0504(01):EN:NOT)

It is obvious, that the police's activity became more complex in the diverse society. The police need new methods, new social relations and partnerships. That is why it is necessary to modernize the content and methods of the police work, in the interest of a higher vocational level and culture. Since the police act in society and according to requirements of society they must know the environment where they work. The already existing treasury of the social sciences, and especially of the police science, can be successfully used in the development of the learning material's content and in the support of the police work. "Police science is a special field of science, which researches the police as an institution – like the police is, like it may be, has to be, or must not be – with scientific methods theoretically (police theory), systematically and empirically (police research). The research aimed for the analysis of the police organisations, of the police activity and dispensation of justice and with reforms helps its correction, and tailoring the police strategies to the social changes."<sup>23</sup> Regarding the methods, the competence-based modular educational system offers good possibilities. "The competence based training offers the complexity of the methods, which is able to motivate participants' activity in the training."<sup>24</sup> CEPOL, as the European Police College, also plays a key role in the dissemination of the research findings and good practices in the field of law enforcement. The police educational institutions and police officers as well, can use the CEPOL's e-library, common curricula and live with the advantages of the European Law Enforcement Training Scheme.<sup>25</sup>

## 7. CONCLUSION

Generally speaking, society in the 21th century is diverse and the police in it have to face a lot of challenges. If we want to get a more detailed picture about the modern police, we have to analyze the requirements of the society and the police's responses in close connection with each other. The policemen have to have a general expertise, in which their social contacts have the largest significance. Although the perception of the diversity is different in different EU countries, the fault lines of society are the same, only their depth and the societal balance differ. Speaking about the police's role and activity, we have to focus on the dramatically changed social environment, where the police must work. The police have to be well prepared for their tasks, but at the same time they have to change permanently in harmony with the permanently changing society. The key question which we tried to answer was how to create an organization that strengthens democracy's values and norms in its structure and function; and how to secure a high and common vocational culture of the police on EU level. We have found that the police needs more knowledge about the social environment, and a better communication and connection with it. The modernization of the police educations' content and methods is also necessary.

23 Schneider, Hans Joachim: Police Science, Police Theory, Police Research. PFA Schriftenreihe der Polizei-Führungs-Akademie. 1+2/2000. p 135

24 The Definition and Selection of Key Competences. [www.oecd.org/dataoecd/47/61/35070367.pdf](http://www.oecd.org/dataoecd/47/61/35070367.pdf)

25 <https://www.cepol.europa.eu/index.php?id=home0>

## INSTITUTION-SYSTEM IN TRANSITION (COHESION POLICY IN POLAND AND HUNGARY)

*The preparation of the new 2014-2020 period is taking place, alongside the consideration of the planning and programming tasks there occurs also the question, what kind of institution system would be necessary for the implementation tasks, and whether it is necessary and if yes, what kind of change of the currently existing organizations would be needed and what factors would influence the structure of the cohesion policy's implementation institutional system. Poland and Hungary are two cohesion countries, both of them using significant amounts of structural funds financing public investments. Despite the common regulation at EU level the two countries seem to choose different solutions in order to guarantee smoother implementation that will allow policy objectives and results to be achieved more effectively – Hungary is centralizing and Poland is rather decentralizing the system. What is behind this phenomenon? Which is the best way to strengthen the efficiency of the cohesion policy?*



### 1. INTRODUCTION

The Cohesion Policy is changing dramatically from a mere solidarity instrument to an investment policy. Planning, programming and the establishment of the new system of Cohesion Policy is in progress. The new cohesion rules have been formed in the spirit of a new approach, result orientation which requires a change of attitude in the operation of the institution system. The question is, what kind of institution system would be necessary for the implementation tasks, and whether it is necessary and if yes, what kind of change of the currently existing organizations would be needed and what factors would influence the structure of the cohesion policy's implementation institutional system.

The present paper explores the practice and the cohesion legislation (both existing: 2007-2013 versus 2014-2020), the institutions systems and mechanism, administrative procedures working in the cohesion policy and compare the Polish and Hungarian system. It will analyze the directions of changes under the new cohesion policy regulation with regards the functioning institutions system and national specificities. At the end of the analysis I try to identify good practices and make general recommendations and responds to the questions set above. The paper uses sources of information based on desk research (analyses of studies, evaluations, official documents and adopted regulations) and

experience from managing and implementing operational programs and projects and legal control on them.

## 2. MAIN SPECIFICITY OF THE COHESION POLICY INSTITUTION SYSTEM

Economic, social and territorial cohesion within and among Member States is a key objective of the European Union. The cohesion funds, as a main tool to achieve the above mentioned goals, (in 2014-2020: European Structural and Investment Funds (ESIF)) are governed by common rules and are subject to shared management by the Commission and the Member States. In certain Member States, the rate of the development-oriented use of public funds depends on the level of development; and, though with a different financing rate, EU cohesion policy funds make up the sources of finance for development and with the narrowing of available budget resources in the next period this will become even more emphatic.

One of the key factors in the success of the cohesion policy is its decentralized delivery system. The Commission has to obtain assurance that the Member States have set up management and control systems which meet the requirements of the regulations, and that the systems function effectively<sup>1</sup>. Member States allocate responsibility for day-to-day administration. This includes the selection of individual projects, the implementation of controls to prevent, detect and correct errors within the declared expenditure and the verification that projects are actually implemented ('first level checks'). The Member States are responsible for carrying out system audits and audits of operations (i.e. projects or group of projects) in order to provide reasonable assurance on the effective functioning of the management and control systems of the programmes and on the regularity of the expenditure certified for each OP. The Member State must also ensure that other areas of Community law such as public procurement, state aid rules, and environment rules are applied properly at the projects. With the evolution of EU cohesion policy the Member States are also responsible for ensuring more specific requirements (transformed into conditionalities) necessary for the use of the budgetary allocations from the EU.

Member States allocate responsibility for day-to-day administration to Managing Authorities (MAs) and Intermediate Bodies (IBs) This includes the selection of individual projects, the implementation of controls to prevent, detect and correct errors within the declared expenditure and the verification that projects are actually implemented ('first level checks'). Certifying Authorities (CAs) verify that 'first level checks' are effectively carried out and, where appropriate, undertake additional checks prior to submitting expenditure declara-

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1 TFEU Art 317.: "The Commission shall implement the budget in cooperation with the Member States, in accordance with the provisions of the regulations made pursuant to Article 322, on its own responsibility and within the limits of the appropriations, having regard to the principles of sound financial management. Member States shall cooperate with the Commission to ensure that the appropriations are used in accordance with the principles of sound financial management.

The regulations shall lay down the control and audit obligations of the Member States in the implementation of the budget and the resulting responsibilities. They shall also lay down the responsibilities and detailed rules for each institution concerning its part in effecting its own expenditure..."

tions to the Commission. Audit Authorities (AAs) in the Member States are responsible for carrying out system audits and audits of operations (i.e. projects or group of projects) in order to provide reasonable assurance on the effective functioning of the management and control systems of the programmes and on the regularity of the expenditure certified for each OP. They report on these audits to the Commission through annual control reports and annual opinions.

### 3. DIFFERENCES IN THE COHESION POLICY IMPLEMENTATION SYSTEMS IN THE MEMBER STATES AND THE NEW APPROACHES

The general conclusion is that the Structural Funds are effective in the Member States that have an appropriate institutional system<sup>2</sup>. According to the cohesion policy rules performing the tasks of management, certification and monitoring is possible within one organization, but the functions should be separated. Interestingly, there are different approaches in the Member States: in some Member States different tasks were placed in separate organizations and a number of Member States have different functions within one organization (e.g., Denmark, Spain). There also occurs a structure in which the managing authority and the certifying authority functions are in one organization and the audit function is set up independently from the previous two authorities (e.g., Finland, Sweden). There is also an example where the certifying authority and the audit authority work as separate units of the same entity (e.g. the Czech Republic, and Slovenia) and the managing authority is separated in another organization. Finally, the three authorities can work also in different organizations (e.g., Austria, Portugal)<sup>3</sup>.

It also varies in the Member States how the implementation tasks are centralized: in some Member States one certifying authority operates with all the operational programs (e.g. Austria, Czech Republic, Denmark, Finland, Portugal, Slovenia, Sweden) in other countries certification authorities are set up by OPs (e.g. Belgium France, Germany, Italy). There are similar solutions also for audit authorities: sometimes one central audit authority shall carry out the duties of all operational programs (e.g. Austria, Hungary), as elsewhere for every programme there are audit bodies (e.g. Germany). In other Member States the audit authority at central level ensures that national operational programs work regularly, while audit authorities work at regional level for the regional operational programs (e.g. Italy, Poland). The Member State may designate also one or more intermediate bodies<sup>4</sup> to the managing or certifying authority to carry out some or all of its functions under its responsibility. The delegations are usually made for implementing regulations or contracts by organizing different responsibilities to different organizations.

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2 Ederveen, S., H. Groot and R. Nahuis (2006): Fertile soil for structural funds? a panel data analysis, *Kyklos* 59(1):17-42.  
3 Davies Sara, Gross Frederike, Polverari Laura (2008): The financial management, control and audit of EU cohesion policy: contrasting views of challenges, idiosyncrasies and the way ahead, EPRC, Glasgow  
4 Organizations can be government agencies, public and private companies, non-profit organizations.

The establishment and operation of the territorial levels are different in the Member States too: the number of regions and the duties and authorities of territorial structure are different. The question is not only how work is shared between the different territorial levels, but also which organizations (municipalities, decentralized agencies, development councils, and agencies) are addressed to the responsibilities and how these shall function. In fact, the nominal division of roles does not provide precise guidelines for the practice, i.e. managing authorities and intermediate bodies can be judged depending on the skills of the real content. It is important also how the levels of tasks are structured: the complexity increases the extra monitoring and reporting system, in addition, experience has shown that at the lower levels of multi-task operations the audit scope and level of detail increase and this control is associated with a narrow interpretation. The most significant factor leading to increased scrutiny could be that while the programming and implementation of cohesion policy is decentralized, the responsibility for the proper implementation is not decentralized – the Member State is responsible for regularity. This in itself includes the need for tight control, and a complex implementation structure can increase the legal uncertainties, which is only counteracted by a strong coordination<sup>5</sup>.

A distinction can be made also between the structure of the institutional systems of each Member State according how the central level is organized and how it operates: with a centralized solution by one central body or managing authorities operating in different ministries, by operational programs independently or in one combined management authority, with the use of intermediate bodies, or without them...etc.

The differences between the programs have a significant impact on how the implementation system is designed. Important factors are i.a. the eligibility of the program, the thematic focus of the program, the financial volume of the program.

It is also important for the establishment and operation of an institutional system, how the use of the EU cohesion funds and national resources is established: in a coordinated way or not and how the delivery systems of the two sources relate to each other. Considering the harmonization of the national regional development systems and the EU cohesion policy implementation system at the international level on the basis of two criteria we meet the following solutions:

- based on the cooperation: integrated – parallel – “mixed” models,
- based on the management: centralized – decentralized – “mixed” models.

With regard to the cooperation criterion in the integrated system the allocation of cohesion funds takes place through the national decision-making channels. Integrated systems also vary between Member States, according to whether the cohesion funds dominate the development of resources (e.g., Poland) or contribute to national development resources (e.g. Germany, Austria). In the parallel institutional systems there operate specific decision-making mechanisms for the domestic and for the EU funds separately. In this

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5 Musiałkowska Ida, Talaga Robert (2013): Legal aspects of the implementation of EU Funds 2007-2013 in Poland – practice and challenges; in: Regionalisation and Inter-regional Co-operation. 21th NISPAcee Annual Conference, Belgrade, 2013, pp.1-10.

structure on one hand the results and costs of the various programs are better visible, on the other hand the setting up of a new system and operation of the two systems in parallel have significant additional costs, moreover, there could be problems with the coordination of funds and programs too (e.g., Hungary). In the coordinated (mixed) model there are specific decision-making mechanisms for the domestic and for the EU funds, however with the recording of the development priorities and objectives and with other consultation and coordination mechanisms it is building on the existing structure and can ensure the coordinated development decisions.

With regard to the second criterion – management – in the centralized system the management tasks are performed by national ministries or other national central organizations with limited decentralization and sometimes with limited partnership too. In most Member States, the central government plays an important role in the implementation of cohesion policy. In some Member States the role of the national level is very strong: the national authorities playing the key role of the management authority define every relevant element of the implementation. In the decentralized (regionalized) implementation system the implementation role and the responsibility for programme implementation is given to the regional level. The role of the central government covers coordination, high-level negotiations with the Commission, intergovernmental consultation and evaluation of the “best practices”. In the decentralized system there is more emphasis on multi-level governance, which can support the effective programme implementation. The development measures may be enjoying the trust and support of local, regional levels. On the other hand the coordination between levels is an important task and additional cost. Many Member States seek to combine the advantages and disadvantages of the two previous system structures. With sectoral and regional programs and with the managing authorities and national ministries the matrix-type responsibility system, involving the regional level, will be implemented in the development programs (Figure 1).

However, the efficiency of regional policy depends largely on the efficiency of the operation of management organizations and in general the quality of the functioning of the administrative system. Corruption and discrimination can significantly reduce the efficiency. As a possible solution the strengthening of institutional capacity and the efficiency of public administrations and public services at national, regional and local level and of the social partners and non-governmental organizations was one of an ESF priority for the 2007-2013 period<sup>6</sup>. This priority is implemented as a separate operational programme (with one or more priority axes) in four Member States (BG, RO, HU and EL) and ten Member States have chosen to implement it as one priority axis in other programmes, especially regional programmes (CZ, EE, IT, LV, LT, MT, PL, SK, SI, UK Wales). However, looking at the current absorption figures it is evident that there is still room to improve the functioning of the system and remove the different obstacles (Figure 2).

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6 Article 3.2(b) Regulation EC 1081/2006

In the new cohesion policy rules the general regulation for 2014-2020 (CPR)<sup>7</sup> set off rules to boost the performance and new conditions are introduced to ensure the EU funding to be a strong incentive for Member States to achieve the Europe 2020 Strategy objectives. So-called “ex-ante” conditions are defined to be met as precondition for use of the funds, and so-called “ex-post” conditions, which are to be achieved, are preconditions of the total funding. In addition to performance-based reserving also the failure to reach the milestones – if it is caused by a malfunction of the implementation – may cause the suspension or even the loss of resources. In view of this it is essential therefore what kind of the conditions, objectives, indicators are fixed to measure the effectiveness of the programs. There is also strong focus on fulfilling the macroeconomic conditions by the countries and the regions with regard to e.g. public finance regime. Bad performance may cause fines (e.g. stop in paying the allocations under cohesion policy) proposed by the Commission in the case of non-implementing the recommendations to improve.

There is a clear requirement to implement a results-oriented system which is a complex and difficult task. In addition, cohesion policy in the recent period operates rather by the “process-oriented” approach and not by “results-orientation” and the administrative capacity is constantly perceived as a bottleneck to performance. Focusing on results requires a complete cultural shift in the institutional system. The demand of the uniform standards and effective management of this complex system moves the structure towards centralization instead of decentralization, however, the decentralized planning and implementation could be an effective solution because of the knowledge of local circumstances and characteristics, of course a strong methodological guidance and coordination by central level is required.

#### 4. THE HUNGARIAN AND THE POLISH SYSTEM OF IMPLEMENTATION IN THE 2007-2013 AND IN THE 2014-2020 PERIOD

Decentralization was a basic element of political democratization and pluralism in Hungary<sup>8</sup> after the regime change in 1989 and with it the Hungarian spatial development policy was also restructured: the act on regional development and territorial planning set up 7 planning-statistical units (NUTS2 region), but with Regional Development Councils<sup>9</sup> and without self-government. Partly because of the lack of self-government and political power the regional entities have played a limited role in the decision-making regarding regional policy and the control on the regional development programs remained at the central government.

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7 REGULATION (EU) No 1303/2013 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 17 December 2013 laying down common provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund and laying down general provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund and the European Maritime and Fisheries Fund and repealing Council Regulation (EC) No 1083/2006 – Art.62-64.

8 Regarding the systematic transformation and the three functions of local governments, the reform process of the Hungarian system of decentralization has been continuous in the 1990s.

9 RDC: chairmen of the County Development Councils, representatives of the ministers, representatives of the micro regions, mayors of the big towns and representatives of the economic and social partners

In Hungary until 2008 there were several domestic development funds available and these earmarked funds were partly centralized and partly decentralized. Hungary set up a centralized system of parallel institutions for national and EU funds management and the management of EU funds operated outside the traditional Hungarian public administration system, with all its advantages and disadvantages. The use of development funds basically followed the sectoral logic. While strengthening the regional level and decentralization was a priority of the programme of successive governments until 2010, the regional level institutions could not become substantially stronger. Not only did the structure of the operational programme strengthen the central administration level but also the structure of the management institutions.

In the 2004-2006 period Hungary – based on the PHARE experience and administrative capacity – set up an institutional system where the sectoral ministries embedded the management authorities. The MA worked with numerous intermediary bodies which were different from the organizations responsible for managing the national sources.

In the 2007-2013 period the National Development Agency (NDA) was set up, which in cooperation with the ministries concerned and the development regions, was responsible for the planning and implementation of the entire New Hungary Development Plan as well as for performing managing authority functions with respect to all operational programmes. The intermediate bodies were usually non-profit state owned companies or in the case of regional OP's the regional development agencies. The regional OPs received only a small share of the funding (2 to 7% of the total), the largest share of support was allocated to the Transport OP and the Environment and Energy OP, which together absorbed more than 40% of the total funding.

In 2010, following the election, at government level the Ministry of National Development was responsible for the coordination and implementation of the cohesion policy. After the Hungarian EU presidency some processual and institutional amendments were introduced, e.g.: simplification in the project selection and implementation, decrease of the number of IB's through mergers, and OP modifications. In 2012 a government restructuring took place which also affected development policy: the supervision of the implementation and the NDA became the responsibility of the Prime Minister's Office and the regional development councils were terminated.

For the next, 2014-2020, period Hungary is planning significant changes in the cohesion policy programme structure and in the institutions system. All the programmes will be implemented at national level. Since January 1, 2014 the management authorities have been working again in the sectoral ministries with twofold responsibilities: for the implementation and closure of the 2007-2013 OP's and for planning and implementing the 2014-2020 OP's. Simultaneously, the NDA was terminated. Additionally very strong coordination functions were established in the Prime Minister's Office, which cover all the ESI funds and programmes with tasks, such as legal and public procurement control, preparation of almost all support decisions. The IB's were terminated on 15<sup>th</sup> April 2014 and at present the relevant ministries are responsible for the IB's tasks.

These changes seem to be risky, because cohesion policy faces three main challenges with respect to the near future. First, it has to solve the absorption problem which is mainly due

to the slow implementation of some priority axes and the irregularity issues<sup>10</sup> affecting the majority of Hungarian OPs. The second challenge is the timely preparation for the next period, involving stronger focus on results and channelling the knowledge accumulated during the past two periods into the planning. The final important task of cohesion policy in the coming years is the smooth conduct of institutional changes. All these tasks require a significant increase in management capacities and human resources, the eventual lack of which would significantly hinder the success of development policy.

Accordingly, at the end these changes might lead to a more efficient system, however, currently they need the management resources of the institutions.

In Poland the reform of the territorial structure consisting of decentralization of public authority was of key significance to the development of regional policy. In 1998 regional self-governments were established (together with new division of the country into 16 regions -voivodeships) – the entity entitled to independently set development strategies and plans as well as programmes and projects aimed at their implementation at regional level – the financial category of regional budgets was also introduced as well as numerous competences were shifted from central level to regional level.

In the 2004-2006 financial period Poland had sectoral operational programmes, technical assistance programme, cross-border cooperation programme, and the Integrated Regional Operational Programme (IROP). The IROP covered ca. EUR 3 billion out of EUR 12.8 billion, i.e. ca. 23% of the Cohesion Policy funds. The IROP included 16 regional segments managed by the Ministry of Regional Development in cooperation with self-governments of 16 regions. At the beginning there was a fear of non-sufficient administrative capacity at the regional level and uniform solution was proposed as a better one.

In 2007-2013 the decentralization of the Cohesion Policy funds management system in Poland increased. 16 regional operational programmes managed by Voivodeships' Boards were identified and about 34% of the Cohesion Policy funds were allocated to these 16 OPs and also decentralized part of the Operational Programme Human Capital. In 2009 the government adopted the objectives of the system of Poland's development management, proposing arranging the order and reduction of the number of development strategies binding in Poland. In Poland operational programmes for the 2014-2020 financial period were defined on the basis of a fundamental principle that integrated approach must be reinforced and maximized and sectoral approach must be abandoned or limited. In the years 2014-2020 the programmes to be implemented at the national level include: European Territorial Cooperation (ETC), 8 sectoral operational programmes and 16 dual-fund (EFRD, ESF) regional operational programmes (15 for the regions classified as "less developed" and one classified as "more developed") will be implemented at the regional level.

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10 Implementation risks emerged also in 2012 and 2013 also due to irregularity issues linked with the selection criterion of public procurements, although they are at least partly solved, because of the discriminatory methods used by Hungarian authorities the Commission interrupted the programmes implementation and decided a financial correction too. Because of the significant time loss the absorption goals of some OPs are still at high risk of de-commitments due to the n+2 rule.

In Poland the implementation of operational programmes will involve institutions having experience in implementing operational programmes, acquired during one or two programming periods. Thus the evaluation of their institutional capacity will be decisive for granting and verifying their accreditation. Managing Authorities will be responsible for the preparation of programmes and also for expenditure certification. The MA will be allowed to delegate the implementation of a part of tasks to the intermediate bodies.

Evidently, preparations for the future round of 2014-2020 Partnership Agreement and OPs are underway across all EU Member States. It seems that following the new conditions given by the new cohesion regulation in some cases major shifts in the policy architecture are planned. However, the directions of the changes are different.

Poland is taking a further step towards the decentralization of programming: around 60% of the financial allocation will now be transferred to the regional programmes, which seems to be a new challenge for the national ministry as well as for the regions. Similarly, the French regions (Conseil Régionaux) will be fully responsible for managing the ERDF (as MA) and moreover, the regions are considering the option of creating a multi-fund approach combining the ESI funds at regional level. The national government will only have a coordinating role.

By contrast, in Hungary the centralization is strengthened – even if it is going together with the fragmentations at the government level – with stronger coordination and central decision-making power. In Finland also a more centralized approach is planned – only one national multi-fund programme is implemented in two regions – and there are concerns about this leading to a centralized model with less involvement from other actors.

Thus, despite the new rules in the cohesion policy regulation, divergence in the cohesion policy implementation is to be expected to remain considerable in the coming years. It is also noteworthy that result orientation and the incorporation of experience are very important for the last years of the current period as well: together with the strong regularity the focus should be shifted towards results and absorption, and the utilization of evaluations can help with enhancing these aspects.

## 5. CONCLUSION

The EU's cohesion policy was undermined by the crisis and wide ranging policy reforms were undertaken. The establishments of the cohesion policy rules have been influenced also by political considerations, setting up a different new system. The effective and efficient cohesion policy will require implementing targeted and complementary measures at all political levels. The integrated interventions have to be in line with the European objectives and tailored to the characteristics of the affected areas because cohesion policy show significant-

ly less effectiveness where the individual spatial situations and problems cannot be taken into account<sup>11</sup>.

The institutionalization of cohesion policy within Member States has far-reaching consequences for the efficiency and effectiveness of development programmes: the effectiveness of regional policy depends largely on the efficiency of the operation of management organizations and also on the absorption capacities in different fields (not only financial absorption but e.g. the need for innovative solutions among the beneficiaries etc.). The demand of the uniform standards and effective management of the new cohesion policy seems to push the structure towards centralization instead of decentralization, however, the decentralized planning and implementation could be an effective solution because of the knowledge of local circumstances and characteristics, but of course a strong methodological guidance and coordination by central level is required. All in all, the sustainability of the effects of cohesion policy can only be achieved, if the development interventions are implemented in an integrated strategic approach<sup>12</sup>.

Following the new conditions given by the new cohesion regulation in some cases major shifts in the policy architecture are planned but the directions of the changes are different. However, the incorporation of experience is very important and besides the strong regularity results should also be focused on. Accordingly, the challenges to be faced by development policy require higher management resources in order to mitigate risks and accomplish the goals set out by the various plans. Ensuring the approach of efficient and effective and decentralized/regionalized cohesion policy seems to be a difficult task under the new conditions.

**1. Figure • Centralized, decentralized and mixed implementation systems**

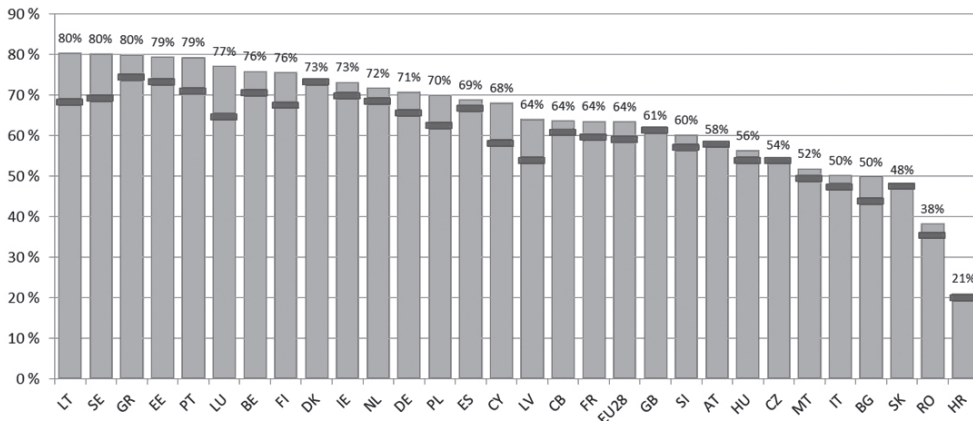
Centralized	Decentralized	Mixed
Denmark, Lithuania, Estonia, Latvia, Slovenia, Slovakia, Hungary, Greece, Sweden, Rumania, Bulgaria, Cyprus, Malta, Luxembourg	Germany, Italy, Nederland, Austria, Belgium, Ireland	Poland, France, Finland, Czech Republic, Spain, UK, Portugal

SOURCE: AUTHOR'S COMPILATION

11 Nyikos Györgyi (2011): Actualities of the development policy. Conditionality and results orientation, cohesion policy versus territorial development, Spatial Statistic, Journal of the Hungarian Central Statistics Office, 14 (51)/1, 38-51.p.

12 Nyikos Györgyi (2011): Territorial planning and territorial aspects in development policy – possibility, obligation or dream?! Village, City, Region; Regional Development and Planning journals 2011/2. 35-41. pp. Budapest

**2. Figure • Cohesion Policy spending by MS (July 2014)**



SOURCE: EUROPEAN COMMISSION

**3. Figure • Structure of Operational Programmes in Hungary for 2014-2020**

	Operational program	ESIF	Managing authority
1	Economic Development and Innovation OP (EDIOP)	ERDF, ESF	Ministry of National Economy
2	Territorial and settlement development OP (TOP)	ERDF, ESF	Ministry of National Economy
3	Competitive Central-Hungary OP (CCHOP)	ERDF, ESF	Ministry of National Economy
4	Human Resources Development OP (HDOP)	ERDF, ESF	Ministry of Human Resources
5	Environment and Energy Efficiency OP (EEEOP)	CF, ERDF	Ministry of National Development
6	Transport-Mobility Development OP (MOP)	CF, ERDF	Ministry of National Development
7	Coordination OP (COP)	CF	Prime Minister's Office
8	Rural Development OP (RP)	EARDF	Ministry of Rural Development
9	Hungarian Fisheries and Aquaculture OP (HFAOP)	EMFF	Ministry of Rural Development
10	European Territorial Cooperation OP's	ERDF, ESF	Prime Minister's Office

SOURCE: THE AUTHOR'S OWN COMPILATION

**4. Figure • Structure of Operational Programmes in Poland for 2014-2020**

	Name of the program	Found	Managing authority
1.	Smart Growth OP	ERDF	Ministry of Infrastructure and Development
2.	Infrastructure and Environment OP	ERDF, CF	Ministry of Infrastructure and Development
3.	Knowledge Education Development OP	ESF	Ministry of Infrastructure and Development
4.	Digital Poland OP	ERDF	Ministry of Infrastructure and Development
5.	Programme of Development of Rural Areas	EAFRD	Ministry of Agriculture and Rural Development
6.	Fishing and Sea OP [FISH OP]	EMFF	Ministry of Agriculture and Rural Development
7.	Technical assistance OP	CF	Ministry of Infrastructure and Development
8.	Eastern Poland OP	ERDF	Ministry of Infrastructure and Development
9.	European Territorial Cooperation Programmes	ERDF	Ministry of Infrastructure and Development
10.	Regional Operational Programmes	ERDF, ESF	Board(s) of voivodship(s)

SOURCE: AUTHOR'S ELABORATION ON THE DOCUMENTS OF THE MINISTRY OF INFRASTRUCTURE AND DEVELOPMENT, POLAND

## NEW FORMS OF GOVERNANCE IN THE TRANSNATIONAL COOPERATIONS

*To realise the full economic and social potential of the so called „macro-regions”, the EU has already defined comprehensive strategies for the Baltic Sea and the Danube area, providing a strong rationale for establishing further macro-regions inter alia in the Mediterranean and the North Sea. These efforts are part of an emerging paradigm-shift towards a functional and integrated approach by transnational nature but at the same time it serve as a test case for territorial cohesion in general, and – as a special mode of multi-level governance – for territorial governance in particular. This paper advances the argument that in the light of the post 2013 cohesion policy and European Union Strategy for the Danube Region it is worth exploring and comparing the possible institutional models in order to establish an innovative operational practice of territorial governance.*



### 1. INTRODUCTION

The term “macro-region” has long been known and used in economics, political geography and spatial planning, despite the fact that it lacks a universally accepted standard definition. As a result, it may be employed as an umbrella term in several other contexts in addition to the ones already mentioned. At the same time, it has come to play a key role in debates and future scenarios connected to the territorial agenda of the EU in general, and the formation of the post 2013 cohesion policy framework in particular<sup>1</sup>

As a first step towards the creation of macro-regions, in 2009 the European Council accepted the European Union Strategy for the Baltic Sea Region (EUSBSR) as a blueprint and

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1 Mendez, Carlos, Batchler, John and Wishlade, Fiona: Setting the stage for the reform of Cohesion policy after 2013. European Policy Research Paper, Number 77, April, 2011, Notre Europe: Think Global-Act European. The Contribution of 16 European Think Tanks to the Polish, Danish and Cypriot Trio Presidency of the European Union, 2011. Available: [www.notre-europe.eu/en/tgae](http://www.notre-europe.eu/en/tgae). Accessed 14 August 2014, Othengrafen, Frank & Cornett, Andreas: A Critical Assessment of the Added Value of Territorial Cohesion. European Journal of Spatial Development, October, 2013. Available: [www.nordregio.se/Global/EJSD/Refereed articles/refereed53.pdf](http://www.nordregio.se/Global/EJSD/Refereed%20articles/refereed53.pdf) Accessed 15 August 2014, Philippe, Doucet, Böhme, Kai & Zaucha, Jacek: Eu territory and policy-making: from words to deeds to promote policy integration. European Journal of Spatial Development, January, 2014. Available: [www.nordregio.se/Global/EJSD/debate201401.pdf](http://www.nordregio.se/Global/EJSD/debate201401.pdf) Accessed 15 August 2014

on this basis, the European Union Strategy for the Danube Region (EUSDR) in 2011.<sup>2</sup> The period between the development of these two strategic documents saw the launching of several new macro-region initiatives (Alpine, North Sea-English Channel, Adriatic-Ionian) supported and coordinated by the European Council and the Committee of the Regions<sup>3</sup>. The point of departure in creating a common descriptive framework was former commissioner in charge of regional policy Pawel Samecki's discussion paper, and the NORDREGIO Advisory Group's working paper. As defined in these documents, the "new" macro-regions – clearly distinguishable from the "old" ones and fitted into EU cohesion policy – are contiguous, integrated and functional units made up of regions belonging to different countries, with common challenges and a strong capacity to represent their own interests<sup>4</sup>. In a relatively short period of time, a rich and diversified corpus of literature has emerged in the preparatory phase of the strategy-building, consisting of scholarly papers<sup>5</sup>. Most scholarly articles and papers investigate the reasons behind the appearance of macro-regions, the aims the EU wishes to reach by creating macro-regions and the conditions under which these new functional regions could successfully operate. Entering in the implementation phase in 2012, still less attention has been paid to the question whether macro-region strategies will exert influence on the europeanization process in the future or whether they may be regarded as a new way of thinking about multi-level governance (MLG) relating to the establishment the institutional arrangement between and within the members states<sup>6</sup>.

The point of this paper departs from is the opinion that debates concerning the definition and interpretation of territorial cohesion provide a good ground for stakeholders to discuss and develop effective policy instruments that in turn facilitate policy coordination between

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- 2 European Commission: European Union Strategy for the Baltic Sea Region. Communication from the Commission to the European Parliament, The Council, The Economic and Social Committee and the Committee of the Regions, Brussels, 10 June, Com (2009) 248 final, European Commission: European Union Strategy for Danube Region. Communication from the Commission to the European Parliament, The Council, The Economic and Social Committee and the Committee of the Regions, Brussels, 10 June, Com (2010) 715 final
  - 3 CoR: Draft Opinion of the Committee of the Regions on a Strategy of the North Sea-Channel area. 86th plenary session, 6-7 October, 2010, COTER-V-006, CoR: Draft own-initiative opinion of the Committee of the Regions on Territorial Cooperation in the Mediterranean through the Adriatic-Ionian Macroregion, 11/12 October, 2011, COTER-V-016, European Council: European Council Conclusions, EUCO 205/12, Brussels, 14 December 2012
  - 4 Samecki, Pawel: Macro-regional strategies in the European Union. European Commission, Stockholm, 18 September 2009. Available: [http://ec.europa.eu/regional\\_policy/cooperation/baltic/pdf/macrorregional\\_strategies\\_2009-pdf](http://ec.europa.eu/regional_policy/cooperation/baltic/pdf/macrorregional_strategies_2009-pdf) Accessed 15 August 2014, Dubois, Alexandre, Hedin, Sigrid, Schmitt, Peter, Sterling, José: EU macro-regions and macro-regional strategies-A scoping study. Nordregio Electronic Working Paper 2009:4, Nordregio, Stockholm, 2009
  - 5 Stocchiero, Andrea: The geopolitical game of the European Union Strategy for macro-regions: Where does the Mediterranean stand? CeSPI and Medgovernance project, Working Papers 74/2010, Rome: CeSPI, 2010, Salines, Marion: Success Factors of Macro-Regional Cooperation: The Example of the Baltic Sea Region. Bruges Political Research Papers, No. 12/March, 2010
  - 6 Holzinger, Katharina and Schimmelfennig, Frank: Differentiated integration in the European Union: Many Concepts, Sparse Theory, Few Data. *Journal of European Public Policy*, Vol. 19., Number 2., 2012, pp. 292-305., Kern, Kristine and Gänzle, Stefan: 'Macro-regionalisation' as a New Form of European Governance: The Case of the European Union's Strategies for the Baltic Sea and the Danube Regions. ISL Working Paper 2013:3, Agder, 2013

sectors and levels of governance. Through better coordination and a strategic use of resources, new and diversified forms of MLG may come into existence with the introduction of an integrated approach that will have a great effect on public policy governance where sectorial-driven government structures are subject to strong territorial influence.

The principles discussed above provide the basis for the structural division of this paper. Firstly the content, role and scope of functional macro-regions grounded on territorial cooperation within the concept of territorial cohesion will be examined. After this possible versions of MLG will be surveyed in the light of the integrated approach that has a crucial role in the implementation of the new spatial planning paradigm and the post 2013 cohesion policy. The third point in the paper is the analysis of the practical workings of the institutional structures of the EUSDR. The last section contains conclusions related to macro-regional strategies with special respect to future perspectives of possible new forms of governance.

## 2. EMERGING MACRO-REGIONAL STRATEGIES: A PRIME TEST CASE OF WHAT TERRITORIAL COHESION MEANS

Territorial cohesion, entered into the *acquis communautaire* by way of the Lisbon Treaty, has become a key notion in the debates and definitions of standpoints for post 2013 cohesion policy within the framework of the Europe 2020 Strategy and the Territorial Agenda 2020.

The inclusion of this concept in the *acquis* provided a good opportunity for stakeholders to test their development policy plans in a much larger environment than narrowly defined cohesion policy. In other words, the future of cohesion policy was being formed in discourses which move from “outwards” “in” i.e. from Member-State supervised broader-spectrum territorial development towards cohesion policy with its narrower thematics; between the two public policies it is territorial cohesion that presented the plane for debates and compromises.

Territorial cohesion is an explicit and cross-cutting principle without having a clear-cut definition, though its basic features have been adopted<sup>7</sup>. 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 and territorial development. The new concept enables citizens and enterprises to make the most of the inherent features of their territories. By exploring the importance both of the endogenous potential and vulnerability, tailor-made and integrated solutions came to the fore replacing the former “one size fits all” approach. According to this, the Barca Report has strongly emphasised the importance of involving local and regional elites (vertical integration) and the necessary dialogue

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7 Barca, Fabrizio: An Agenda for a Reformed Cohesion Policy: A place-based approach to meeting European Union challenges and expectations. Independ report prepared at the request of Danuta Hübner, Commissioner for Regional Policy, April 2009. Available: [http://ec.europa.eu/regional\\_policy/policy/future\\_barca\\_en.htm](http://ec.europa.eu/regional_policy/policy/future_barca_en.htm). Accessed 15 August 2014., Medeiros, Eduardo: Territorial Cohesion: a conceptual analysis. Institute of Geography and Spatial Planning (IGOT) Lisbon University, Portugal, 2011. Available: [http://ww3.fl.ul.pt/pessoais/Eduardo\\_Medeiros/docs/PUB\\_PAP\\_EM\\_Territorial\\_Cohesion.pdf](http://ww3.fl.ul.pt/pessoais/Eduardo_Medeiros/docs/PUB_PAP_EM_Territorial_Cohesion.pdf) Accessed 15 August 2014., Mendez, Carlos: The post-2013 reform of EU cohesion policy and the place-based narrative. *Journal of European Public Policy*, Volume 20, Issue 5, 2012, pp. 639-659.

with various sector policies (horizontal integration) 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.

Territorial dimension has appeared in differentiated forms in the legislative package on cohesion policy issued on 17 December 2013, especially within one of the two objectives (Investment for Growth and Jobs, European Territorial Cooperation) the relatively low-budget and "top-down driven" European Territorial Cooperation (ETC)<sup>8</sup>. Functional macro-regions (FMR), partly emerging due to this objective, represent several elements of the overall but differentiated concept of territorial cohesion as ETC objectives need to be incorporated into the Partnership Agreement (PA), which is the main strategic document between the member states and the European Commission for implementing cohesion policy.

However, the utilization of the European Structural and Investment (ESI) Funds cannot be considered untroubled as these funds – especially the European Social Fund (ESF) – are not suitable for specific macro-regional development initiatives. As ETC owns the lowest budget objective in the ESI Funds that apparently restricts opportunities of macro-regions. Adapting the multi-criteria system and the proceedings of cohesion policy to macro-regional strategies is also problematic, particularly on the subject of thematic priorities, entitlement and the extent of allocation. Nevertheless, not only mobilizing and involving external sources of finance, donor organizations, international monetary institutions, and individual capital, but also securing essential institutional and administrative capacities seem to be the greatest challenge. So the "3NO" approach by the Commission (no new funds, no new legislation, no new instrument) in practice means that a key role is given to the harmonisation of existing institutions, financial and human resources, links and developments in the given region.

This kind of problem arises regarding thematic concentration as well. According to draft guidelines, transnational and cross-border initiatives have to focus on only four thematic priorities of the EU 2020 strategy. This concept not only disregards the special situation of cooperation programs that are based on at least two national approaches, but also makes it almost impossible to finance several macro-regional objectives, leaving these latter to donor organizations. Thus, a "patchwork financing" may evolve that encumbers the realization of the priorities of macro-regional strategies in a common framework. Notwithstanding there are no thematic contradictions between the EU 2020 Strategy, the macro-regional strategies and the thematic objectives of the Common Strategic Framework for the ESI Funds, it remains still an open question whether how can or should ETC programmes be aligned with the themes of macro-regional strategies. All in all, the main challenge is quite clear: how macro-regional strategies may be best used to ensure policy coordination between sectors

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8 Böhme, Kai, Doucet, Philippe, Komornicki, Tomasz, Zaucha, Jacek, Swiatek, Dariusz: How to strengthen the territorial dimension of 'Europe 2020' and the EU Cohesion Policy. Report based on the Territorial Agenda 2020. Prepared at the request of the Polish Presidency of the Council of the European Union. Warsaw, September 2011, Regulation on Territorial Cooperation: Regulation (EU) No 1299/2013 of the European Parliament and of the Council of 17 December 2013 on specific provisions for the support from the European Regional Development Fund to the European territorial cooperation goal. Official Journal of the European Union, 20 December 2013

and governance levels, while emerging post 2013 cohesion policy contains well-defined expectations of a simplified and more effective implementation in line with the priorities in focus. The importance of an integrated approach is shown by the great number of debates about overlapping cooperation forms, financing, and the choice of the proper institutional form. Nevertheless, it is important to raise further questions whether the integrated approach brings a truly innovative and effective method with respect to the new place-based paradigm. In this case emphasis falls on the introduction of the practice of MLG which has been present in EU literature for over a decade and a half, with a decisive role.

### 3. INTEGRATED APPROACH: CATALYZING A NEW FORM OF GOVERNANCE?

The starting point to understand the essence of integrated approach is that drivers of growth are different among 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 considering the high vulnerability index facing all European regions. As a result more and more crosscutting (horizontal) policy issue gained importance requiring that the relevant actors have to recognize their interdependence and work collaboratively. The integrated approach hasn't still got standard definition but the broad analytical framework of it has been established<sup>9</sup>. However, controversial statements have emerged as integration among policies is the „natural” way but unexpected externalities and conflicts may arise; integration among policies only possible within fixed and rigid areas, but the importance of functional areas can't be denied; integration of policies is a matter of programming phase, but the high level of uncertainty in the implementation makes it necessary the usage of integrated approach. Last but not least, contrary to the determinant role of vertical integration, horizontal integration turned out to be a case of territorial cooperation.

So it is a big question how to find a proper balance 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 make contacts with their counterparts in other regions. It is underlined by different ways of policy coordination due to functional approach. As a result, the most appropriate territorial level may vary, in addition different partners at different levels may find it hard to cooperate. Broadly speaking, it may be a problem of interprofessional collaborations: working horizontally is a very time- and resource-consuming activity. According to the relevant background papers, the well-known concept of Gary Marks and Liesbet Hooghe, the Type 2 of multi-level governance seems to be a favoured concept that allows for more task-specific jurisdictions, with tailored member-

<sup>9</sup> Rodrigues, Duarte. Integrated approach: from common myths to right balances. In: Polish Presidency of the Council of the EU: Seminar on Territorial Dimension of Development Policies. Seminar Papers and Proceedings, 18-19 July 2011, Ostróda, Poland, pp. 99-105.

ship and a flexible design, more likely to be found in cross-border regions and widespread on the local level<sup>10</sup> (Marks and Hooghe, 2004). This institutional arrangement expands the role of “level” at which new challenges can be addressed so besides the regional level (NUTS II) local and sub-regional levels could also come into consideration. For example in Hungary the decentralized territorial development will be implemented at county (NUTS III) level and in cities with county-right 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 national level and transnational level. This also shows that the principle of partnership and the concept of MLG have been lifted into the Committee’s proposal for after-2013 cohesion law, which not only prescribes but also defines the circle of actors that member states will have to establish partnership contracts with in the process of elaborating partnership contracts and details of operational programmes and their implementation, monitoring and evaluation. The practice of contractualisation relationship requires the formation of several different forms of cooperation platforms to reinforce stakeholder commitment and awareness in influencing decisions. 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<sup>11</sup>. This also shows that the principle of partnership and the concept of MLG have been lifted into the Committee’s proposal for after-2013 cohesion law, which not only prescribes but also defines the circle of actors that member states will have to establish partnership contracts with in the process of elaborating partnership contracts and details of operational programmes and their implementation, monitoring and evaluation. The practice of contractualisation relationships requires the formation of several different forms of cooperation platforms to reinforce stakeholder commitment and awareness in influencing decisions.

The new structure created on this basis may greatly contribute to fast progress and concrete achievements for macro-regions (in our case, the EUSDR) as well as the publication of these results within the stakeholder circle and the EU as a whole.

#### 4. ENHANCED COORDINATION INFLUX: THE KEY DRIVERS OF THE EUSDR PROCESS

The EUSDR was confirmed by the General Affairs Council (GAC) on 13 April 2011. The formal decision of support took place in the European Council on 24 June 2011. This made EUSDR step into the implementation phase, which raised the necessity of creating a special type of governance. The institutional structure based on the Action Plan clearly follows the pattern of the EUSBSR. However, at this point it is useful to remind ourselves that the practi-

10 Marks, Gary-Hooghe, Liesbeth: *Contrasting Visions of Multi-level Governance*. In: Bache, Ian and Flinders, Matthew (eds.): *Multi-level Governance*. Oxford: Oxford University Press, 2004, pp. 15-30.

11 Committee of the Regions: *Building European Culture of Multilevel Governance: Follow-up to the Committee of the Region’s White Paper.CIVEX-V-024, 94. plenary session Brussels, 15-16 February, 2012*

cal functioning of governance is the coordination and steering of cooperating sectorial policies. Coordination includes capacity-building and mobilisation, various forms of problem solving and conflict management; adaptation and learning may also be mentioned here. As a result, governance exercised in a perpetually changing environment exists in the innovative forms of coordination and capacity-building under the conditions of a necessary “institutional consensus” that may consist of its transferability<sup>12</sup>

When discussing perspectives for 2014/2015 on the overall level of the EUSDR, it should be considered that further implementation requires both an evaluation of a „state of play” of the current governance structure as well as the established „next steps” towards enhanced territorial/regional development cooperation in the area.

Strategic, policy-level coordination is done by the experts of Priority Area Coordinators (PACs), National Contact Points (NCPs), and the European Council. The task of the NCPs is the coordination of national level civic administration organisations involved in the implementation; they also provide advice and information. National partners do play an important role for embedding the EUSDR into the domestic context, but mutual exchange between NCPs about good practice and “failures” would be also very useful. Two important elements of strategy coordination are reporting and evaluation. The responsibility for these is mainly held by the Commission, in partnership with PACs and other stakeholders.

In order to promote the efficiency of implementation and vertical coordination Steering Groups are organised under all 11 PACs on the principle of wide-range stakeholder involvement and partnership. Both PACs and Steering Groups do play a crucial role during the implementation phase – in particular in providing platforms for debate/cooperation among “multipliers” and stimulating coordination/cooperation on key issues/actions.

Flexibility for PACs to adapt their work to the specific context of the given priority area and of the partners involved has to be ensured, in addition the scope and possibilities to cooperate on single projects differ among priority areas. Flagship project leaders are the major actors in implementation, monitoring and feedback on the one hand and on the other hand they actively contribute to the search for cooperation partners and funding opportunities together with the NCPs and the Steering Groups. As a result, Member States that are involved in the implementation of the particular project, non-EU Member States and regions are mainly responsible for the implementation. This ensures high levels of ownership in the course of implementation, which is complemented by the policy-level facilitator and coordination role of the European Commission.

Horizontal and at the same time operative coordination is performed by the LabGroup (set up in March 2011) jointly with the INTERACT programme. Their activities are centred around the facilitation, coordination and the creation of the required communication surfaces. The task of the LabGroup as an informal think tank is to be the “missing link” between the PACs, the Steering Groups, and potential funding bodies (Structural Funds, IPA and ENPI programmes, International Financing Institutions, IFI).

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12 In this sub-chapter I heavily relied on PAC annual reports for 2012, 2013 and 2014. Available: [www.danube-region.eu](http://www.danube-region.eu). Accessed 15 August 2014.

Last but not least, the “roof” of the High Level Group (HLG) consisting of high-ranking officials of member states is placed over vertical and horizontal coordination as territorial governance. An imaginary horizontal counterpoint, an Annual Forum is organised by the Commission (similarly to the EUSDR) to discuss and evaluate planned or implemented actions.

Looking at the emerging EUSDR-Governance arrangements, it seems to be still a transition period when modalities of specific governance are currently invented and tested. This process requires time, and a high sense of pragmatism should be important in this respect. In any case, implementation arrangements have to remain flexibly adaptable to contexts and must not be too rigidly pre-defined and could not be organised along the logic of funding programmes only.

## 5. CONCLUSIONS

The concept of a macro-region is organically fitted into the new paradigm of territorial policy, a key element of which is territorial cohesion. In its implementation a decisive role is played by the integrated approach, the institutional form of which is most adequately represented by MLG. Launched under the tight coordination of the European Commission and accepted by the Member States, the the EUSDR have created a new top-down integrated place-based form of MLG, which might be called territorial governance with the use of a previously existing term. Territorial governance in this sense is a tool to implement territorial cohesion, in the course of which tightly institutionalised hierarchical and loosely organised, network-type coordination governance forms coexist. To achieve this, macro-regional strategies aim at achieving coordination across horizontal (across sectoral policies), vertical (across different governmental levels) and geographical (across administrative territorial units) interventions.

However, it his may cause a hard burden for the participant countries that requires a serious amount of resources, staff, knowledge and expertise. The lack of proper institutional and administrative capacities could impede the opportunity of all regions to be involved in the implementation bringing about the risk that macro-regional strategies will be in fact implemented by a small number of influential an “rich” actors. Establishing powerful macro-regions is therefore a long-lasting and time-consuming process that nonetheless provides a strong rationale to seek new forms of MLG as a model of EU territorial governance.

Tibor László Buskó – Attila Józszai

# BEGINNINGS OF URBANIZATION PROCESSES AS EXEMPLIFIED BY THE BUDAPEST METROPOLITAN AREA

Preface to a Historical Model of Urbanization

*Investigating Hungarian urbanization processes – especially when using the example of the Budapest Metropolitan Area – has been a central research topic of the Hungarian regional science discourse during the past decades. Research work increasingly contributed to better understanding of those urbanization processes, on the basis of a model of urbanization elaborated by Leo van den Berg and – as for the Hungarian literature – György Enyedi.*

*This article conceptualises the two most important approaches to urbanization, the 'evolutionary school of thought' and the 'historical school of thought'. The evolutionary school can be interpreted as a group of theories that identifies urbanization as a universal process of successive 'stages of urban development'. The historical school of thought is relatively unknown. This is because it does not concentrate on popular – and, sometimes, slightly simplistic – generalisations, but rather on characteristics of individual trajectories of urbanization. Joining forces with the historical school. The present article tries to formulate a clearer notion of the urbanization development within the context of the recent Budapest Metropolitan Area during the period of 1900-1945. Using contemporary statistical publications, we built a database that helps to quantify the intensity of urbanization processes. We were able to distinguish communities falling under the 'immediate urbanization zone', communities falling under the 'broader urbanization zone' and communities that did not participate in any urbanization processes at all.*

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## 1. INTRODUCTION

The study of the urbanization processes observable in Hungary and within it in the Budapest Metropolitan Area has attracted the attention of a relatively broad range of Hungarian researchers in the past decades. The study of the phenomenon started in Hungary in the 70s, according to international urbanization research trends, then the inaugural address at the Hungarian Academy of Science by professor Enyedi in 1982, who passed away in 2012, was its milestone. The research projects mainly provided newer and newer contributions for the

examination of the urbanization processes occurring in the Budapest Metropolitan Area, based on the principles of the so-called evolutionary school of thought, related to the ability to observe phases in the processes of urbanization, elucidated by van den Berg and Drewett<sup>1</sup>, subsequently further elaborated by György Enyedi<sup>2</sup> and later refined by several others. Professional literature discussing the subject primarily focused on the study of the periods, in the cases of which a sufficient amount of statistical data was available, which could perhaps be complemented by empirical research as well. Therefore a significantly greater emphasis has been placed on the examination of the processes of our times and of those twenty-thirty years ago, while the period before 1945 has received an unfairly small amount of attention.

Therefore our objective is to revise the dogmatic conclusions of the evolutionary school of thought related to the period, and if that is necessary to refute its conclusions, by elaborating a model with a historical viewpoint regarding the urbanization processes of the Budapest Metropolitan Area before 1945, in as much detail as possible. Because of all these, let's take a look at the differences between the principles of the historical and the evolutionary schools of thought!

The views of the historical school of thought are little known, perhaps primarily because they don't think in terms of models, general rules which can be schematized, they rather emphasize uniqueness. The historical school of thought can thank the appearance of the evolutionary school of thought for its inception, it is a reaction to that – in our opinion, in reality it only refines the conclusions of that in its interpretation framework system. Its representatives do not reject the phasing of the evolutionary school of thought, they merely maintain, that the intensity, the territorial extent, moreover in certain cases even the order of individual phases may be different from city to city, therefore it is not the city placed in the evolutionary model that is in the forefront of their views, rather the city's development phases themselves. Expressing these in words is not easy either, and even in our days there is not a complete agreement among the representatives of the view, whether typifying these urban development phases is even possible at all.<sup>3</sup> If this classification is implemented nevertheless, then it will possess a schematic characteristic similar to the phasing of the evolutionary school of thought, only according to a different structure. With this we may even prove that there is no problem with the modeling of urbanization processes themselves (which may be spatial or functional), the question rather is – to open a third front – how the urbanization of a Metropolitan Area can be uniformly observed, or is that even possible at all? Is it possible, in the case of a metropolis, for the urban development processes, which in each part of the city have different characteristics, intensity because of various – geographical, economic, environmental – reasons, to converge in the same direction, and then suddenly become smoothly adaptable into one of the well identifiable evolutionary phases? Meaning, that from the point of view of our surveyed area, we have to search for the answer in the phasing of the

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1 van den BERG, Leo – DREWETT, Robert – KLAASSEN, Leo H. – ROSSI, Angelo – VIJVERBERG, Cornells H. T.: *A Study of Growth and Decline*. Pergamon Press, Oxford – New York, 1982. 162. p.

2 ENYEDI György: *A városnövekedés szakaszai*. Akadémiai Kiadó, Budapest, 1988. 115. p.

3 SAVAGE, Michael – WARDE, Alan: *Urban sociology, capitalism and modernity*. Macmillan, London, 1993. 221. p.

evolutionary school of thought, while relying on the viewpoints of the historical school of thought, which emphasize uniqueness.

The urban ecology theory of the residents of Chicago proved to be sufficient for the study of the development processes of American cities until the end of the 1920s. However, at that time, new, previously unknown processes appeared, and spread in the next decades: the territory of cities expanded, while their population stagnated, or the pace of their development considerably slowed; special areas, so-called suburbs appeared in the vicinity of large cities. This meant a qualitatively new element; the process was designated by the extension of the concept of urbanization – as city development – with the addition of the prefix “sub” – “under”, under something (the city). Thus the concept of suburbanization in its original form referred to the appearance of a residential ring outside of the city, farther away from it, the residents of which continued to take advantage of the central city’s services, their workplaces were there, and their chosen place of residence was not in the same place only because of their desire for a more livable environment. However, subsequently the concept – compared to its original content – was significantly expanded.

The ‘Alpha’ of the distinction of urbanization phases is the Vienna report,<sup>4</sup> which differentiates four phases, concentration (classical urbanization, or “urban explosion”), the primary cause of which is practically exclusively industry,<sup>5</sup> where residents with insufficient mobility strive to settle in the vicinity of industrial areas. This is followed by suburbanization, which is divided into two further phases. The first one is relative concentration, in the case of which the city’s population expansion slows caused by the surrounding towns, then the second phase, relative decentralization, when the population of the central city first stagnates, then it diminishes, and concurrently with this – even though at a reduced pace – the growth of the city ring still continues. In the third phase of development the reduction of the entire urban region’s population is characteristic, desurbanization – which was later divided into two further phases by several researchers. In this phase the network of small towns in the broader – secondary – Metropolitan Area develops. From this point on the presumed development may diverge in two directions, one of these directions is reurbanization, meaning the filling of the residential areas of the inner city with residential function again, or the trend continues to centrifuge outward and creates a new growth pole, in which the city which was our starting point is only one player among many. During the period since the Vienna report models have been created which are sometimes practically identical with this division, diversified by insignificant additions, modifications<sup>6</sup> and sometimes somewhat – mainly related to the characteristics of the phases – different<sup>7</sup>. All of them, without an exception, take territorial concentration as the starting-point, the fundamental cause of which

4 van den BERG, Leo – DREWETT, Robert – KLAASSEN, Leo H. – ROSSI, Angelo – VIJVERBERG, Cornells H. T.: *A Study of Growth and Decline*. Pergamon Press, Oxford – New York, 1982. 162. p.

5 Only city development related to today’s “third world” differs from this; in this case it’s not industrial concentration, rather the crisis of rural regions that motivates the commencement of ‘city explosion’.

6 TÓZSA István: *Közigazgatási Urbanisztika I. – Településtan*. Aula Kiadó, Budapest, 2011. 191. p.

7 IZSÁK Éva: *A városfejlődés természeti társadalmi tényezői – Budapest és környéke*. Napvilág Kiadó, Budapest, 2003. 177. p.

is, that as a result of employment concentration in the higher level activities (industrial production stretching the conventional framework), concurrently the population is concentrated as well. And the concentration of residence occurs simultaneously with employment concentration but generally at different paces and to different degrees.<sup>8</sup> The study of societal, sociological changes should be at least equally important parts of the research of urbanization processes, but they are generally neglected. In consideration of these we have to highlight the change in the aspiration level regarding lifestyle, occupation and the environment of residence – they can only be examined circumstantially from a historical viewpoint –, as well as the opportunities for the research of residence migration, which promise significantly more diverse results than population trends. Only a few Hungarian researchers<sup>9</sup> call attention to the necessity for this, either specifically or with partial results of their work. In connection with the opinions regarding the characteristics of suburbanization the situation is more refined. One of the possible reasons for this may be that this process is considerably stretched in time therefore different viewpoints emerge in the course of empirical research projects conducted in different eras. On the other hand, suburbanization characteristics are sometimes more difficult to recognize from a historical perspective, just as in our times, desurbanizational, even reurbanizational characteristics may appear in the vicinity of Budapest, in the classical urbanization phase – according to the axioms in a far greater scale, that is generally accepted – we can observe the early commencement of suburban processes.

## 1. METHODOLOGY

Our study may be considered the first step in the research tracing the development of the recent Budapest agglomeration,<sup>10</sup> therefore we will construct our database taking every affected municipality into consideration. Regarding the starting-point of the study, of course, we are aware of the fact, that the fundamentals of urbanization processes were evident even in the last third of the 19<sup>th</sup> century in the vicinity of Budapest. The research projects of Károly Vörös (Spira-Vörös 1979) primarily called attention to the early urbanization of the Újpest-Rákospalota complex (the population of Újpest reached 42 thousand souls as early as at the turn of the century), and – even though to a lesser degree – similar trends can be observed at the three communities, which developed to the South, Erzsébetfalva, Kispest and Pestszentlőrinc as well. However, the scantiness of source material in the second half of the 19<sup>th</sup> century very simply would not have made a study based on detailed qualifications possible. Therefore we selected the period between 1901 and 1910 as the starting-point of our study (with respect to the difference of natural population increase and migration) and the

8 TÓTH József: *Az agglomerálódás stádiumai*. In: CSAPÓ Tamás – KOCSIS Zsolt eds.: *Agglomerációk és szuburbanizálódás Magyarországon*. Savaria University Press, Szombathely, 2006. 6-15.

9 DÖVÉNYI Zoltán – KOCSIS Zoltán: *A szuburbanizáció térbeni-társadalmi jellemzői Budapest környékén*. Földrajzi Értesítő, 1999. 1-2. 33-57. p.

10 The list of municipalities included in the Budapest agglomeration is in: Act LXXXVIII. of 2011 concerning the amendment of Act LXIV. of 2005 concerning the Municipality Construction Plan of the Budapest Agglomeration.

census moment of the census conducted on December 31<sup>st</sup>, 1910 (with respect to other indicators), because we deemed our data sources sufficiently detailed from this point on.<sup>11</sup>

In a few cases the method of fitting the municipalities included in our census volumes into our database caused a special problem. Because the number of municipalities recorded at the time of the census differs from the current number in some places. The most significant difference was the establishment of Greater-Budapest, starting on January 1<sup>st</sup> 1950, because it made 23 formerly independent municipalities parts of Budapest. We indicated these municipalities in our database, according to the administrative conditions of 1949. However, in the case of other municipality mergers we strove to conform to the current administrative conditions: for example we combined the data of Órszentmiklós and Vácbotyán even in the period between 1910 and 1941 under the name of „Órbottyán”, which didn't exist at the time yet. Municipalities becoming independent, which is rather frequent in our era, caused a larger problem (for example Pestszentlőrinc has only been an independent municipality since 1910, previously it was a part of Kispest). At the time of the first census following its independence – since the data regarding the difference of natural population increase/migration are not separately available to us in the entire period prior to it – we indicated the affected municipalities in our database still combined (in our example: in the form „Kispest + Pestszentlőrinc” ). The case of Délegyháza also posed a special problem, since this municipality currently constituting a part of the Budapest agglomeration became independent only in 1950, from the municipality portions of Bugyi's part Alsódélegyháza, as well as Dabas' part Felsődélegyháza. For this reason, in this case as well we applied the Bugyi+Dabas+Délegyháza solution. Because of these problems at the presentation of the results of the study – especially where the smallest units of our study are not independent municipalities, rather merged municipality groups – instead of municipality we will use the term “study unit”.

After this, let us take a look at what those variables are, which are available to us from the census of 1910, 1920, 1930 and 1941 alike, and – according to our base hypothesis – appropriately point out certain modernization trends. We may mention the following:

Natural population increase: since the reduction of the values of natural population increase can be considered as one of the indicators of modernization, according to our suspicion, in the case of those municipalities where the effect of modernization is more intense, the values of natural population increase will diminish. To filter out the influence of annual fluctuations, in the course of the study in every case we considered the ten year average of values of natural population increase (thus, in the case of the year 1910, we took the average of the period between 1901 and 1910).

Migration difference: the migrants arriving from the city probably also indicate modernization. To filter out the influence of annual fluctuations, in the case of migration difference, we also considered the ten year average values.

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11 Besides the related census volumes, we also used the data contained in the population movement volume (KSH 1969) published by the Hungarian Central Statistical Office in 1969.

Proportion of agricultural employees: in the most developed municipalities with industrial characteristics, as well as in the laborer, office-employee and vacation settlements, the proportion of agricultural employees will obviously be extremely low. Therefore an inverse proportionality can be considered probable between the proportion of agricultural employees and the degree of modernization.

Literacy rate: in the era of our study illiteracy had not been reduced to the point, that from the illiteracy rate we wouldn't be able to draw conclusions regarding the general educational conditions of the population. According to our suspicion, in the municipalities where modernization is more advanced, the proportion of the literate population will be higher as well.

Proportion of stone and brick houses: obviously modernization must be reflected in the general scene of the municipality as well. Therefore, according to our suspicion, the houses built from unburned brick, mud and various mixed construction materials, will be replaced by stone and brick constructed buildings with the advancement of urbanization.

If we study the trend of our variables constituting our database between 1910 and 1941 one by one, in comparison with the conditions in Hungary (TABLE 1), we can undoubtedly establish as much that some kind of modernization process unquestionably occurred between the starting-point and the end-point of the study.

**Table 1 • Indicators of modernization in the communities of the recent Budapest Metropolitan Area (1910-1941)**

	Natural growth yearly average (‰) 1901-1910;	Migration change yearly average (‰) 1901-1910; 1930-1941	Employees in agriculture (%)	Per cent of people knowing to read and write in the population above 6 years (%)	Stone- and brick houses (%)
<i>Budapest agglomeration, 1910</i>	17,8	17,2	51	83,5	34,1
<i>Hungary, 1910<sup>1</sup></i>	12,2	-1,1	57,2	82,8	22,1
<i>Budapest agglomeration, 1941</i>	5,8	14,2	36,7	94,6	62,2
<i>Hungary, 1941</i>	7,3	0,8	48,9	92,4	27,7

1 In the case of stone and brick constructed buildings, the data refers to the territory before the end of World War I. In other cases they refer to the current territory of Hungary.

(SOURCE: OUR OWN CALCULATIONS BASED ON CENTRAL STATISTICAL OFFICE DATA)

Decrease in the birth rate and the ratio of agricultural workers and the growth of the ratio of literacy and the stone and brick built houses unambiguously point to the advancement

of modernization. In fact, the same is true about the net migration rate values, which can be regarded as the indicator determining the urbanization process: although the net migration rate somewhat decreased in the 1930-1941's compared to the 1900-1910 period, the immigration surplus still remained significant. And if we add that the total population of our study area increased by 160,726 people between 1930 and 1941 (the same value between 1900 and 1910 was only 141,266 people even at a much higher natural population increase rate), the trend seems even more evident, if possible.

However, it does not become evident how much this growth is due to the proximity of Budapest (in other words, to the urbanization process referred to in the title) simply by proving our statement related to modernization in general terms. It appears that if we succeed in pointing out the geographical variation of modernization processes in our studied area, as well as in concluding the connection between these inequalities and the effect of the proximity of Budapest, then our hypothesis is also proven regarding the emergence of urbanization between 1910 and 1941. For this purpose, however, we will need a deeper analysis than the one conducted thus far of the variables in our study. How should we conduct such an analysis?

We suggest the following method. First, we must suppose that such a variable exists that will help us reveal the statuses of the above-mentioned modernization processes in the various communities comprised in our data base. Since there is no census dating back to the period which would reveal such a modernization variable, it can only be a latent variable that we create from the real variables in our census data sources with the use of some multivariate mathematical-statistical method. We realized this task using principal component analysis – one of the most widely used data reduction processes. Without going into further mathematical details of the process, it should simply be noted that a principal component analysis is considered successful only if:

- the variables closely fit – as agreed, at least with a minimum 0.25 communality value – to our principal component,
- the principal component retains a fairly high ratio – as agreed, at least 50% – of the heterogeneity of the variables.

## 2. REPORTING RESULTS

Having regard of all this, we would like to present the results of the principal component analyses related to the study period. As it can be seen in Table 2, the modernization variables we selected, with the exception of two, meet the requirement of the principal component – perhaps. The results of the literacy rate in 1910 and of the natural population increase in 1920 are the only ones that are a loose fit to our principal component. Therefore, we had to exclude the incriminated variables from our principal component based on the data of the 1910 and 1920 censuses. In this way, the retained heterogeneity exceeds 50% in each case. In other words, below we can safely move on to verifying the emergence of the urbanization process.

**Table 1 • Results of the principal component analysis**

	1910	1920	1930	1941
Natural population increase‰ – communality value (component matrix value)	0.413 (0.643)	***	0,469 (-0.685)	0.582 (-0.763)
Net migration rate‰ – communality value (component matrix value)	0.791 (0.889)	0.517 (0.719)	0.554 (0.745)	0.524 (0.724)
Agricultural workers% – communality value (component matrix value)	0.737 (-0.858)	0.805 (-0.897)	0,72 (-0.849)	0.765 (-0.874)
Literacy% – communality value (component matrix value)	***	0.284 (0.533)	0.5 (0.707)	0.385 (0.621)
Stone/brick buildings% – communality value (component matrix value)	0.442 (0.665)	0.526 (0.725)	0.704 (0.839)	0.727 (0.852)
Retained heterogeneity%	59.56	53.29	58.96	59.66

(SOURCE: OUR OWN DATA BASED ON CENTRAL STATISTICAL OFFICE DATA)

In connection with this, we must point out another peculiarity. As it can be seen, another positive so-called matrix value<sup>12</sup> appears in parentheses next to the 0.413 communality value of natural population increase in 1910. This means that in the period between 1900 and 1910 – contrary to our hypothesis and subsequent results – there is still a positive-directed connection between natural population increase and modernization. In our opinion, this seemingly surprising result can be explained by the fact that in the period between 1900 and 1910 the values of natural population increase was still primarily determined by the higher fertility indicators of the younger generation relocating to communities involved in the modernization and not by the general modernization trends indicated in the hypothesis.

Verifying the existence of the urbanization processes becomes possible after printing the so-called principal component values. These provide the values of the “modernization variable” assigned to each community in a standardized format, from the communities most impacted by the modernization processes (highest value) to those least impacted (lowest value). Even if we compare the minimum and maximum values of the principal components of 1910 and 1941 only (1910 – maximum: 2,7149, minimum: -1,61971; 1941 – maximum: 2,27502, minimum: - 2,32387), it is evident that in our study period the difference between the communities most and least impacted by the modernization slightly increased. If we add that the changes taking place during the period, based on Table 1, applied their impact mainly in the direction of modernization, then we can conclude that *the communities around Budapest became varied in the period between 1910 and 1941 due to the impact of modernization*. The various modern-

<sup>12</sup> Technically: we arrived to the individual communality values by taking the square of the component matrix values related to them.

ization tendencies impacted the different communities to various depths. In this way, we have arrived at the most crucial question of our study: How much of this variegation can be attributed to the effect of the proximity of Budapest; or in other words, how much can modernization be equated with urbanization in our study area?

For the answer, all we will demonstrate here is that a correlation can be shown between the proximity of the capital and the extent of modernization. For this, it is sufficient to take a look at the principal component values of the 23 communities located in close proximity to the capital that in 1950 were joined to the Greater Budapest Area. Since during our study period it never occurred that a community that was joined to the greater Budapest area in 1950 would be rendered a lower than average modernization value, urbanization and above average modernization can by-and-large be correlated – at least in our study period/area – to the same group of communities. Therefore, from now on we will use, under the name “urbanization variables,” the modernization variables introduced earlier to determine the urbanization zones.

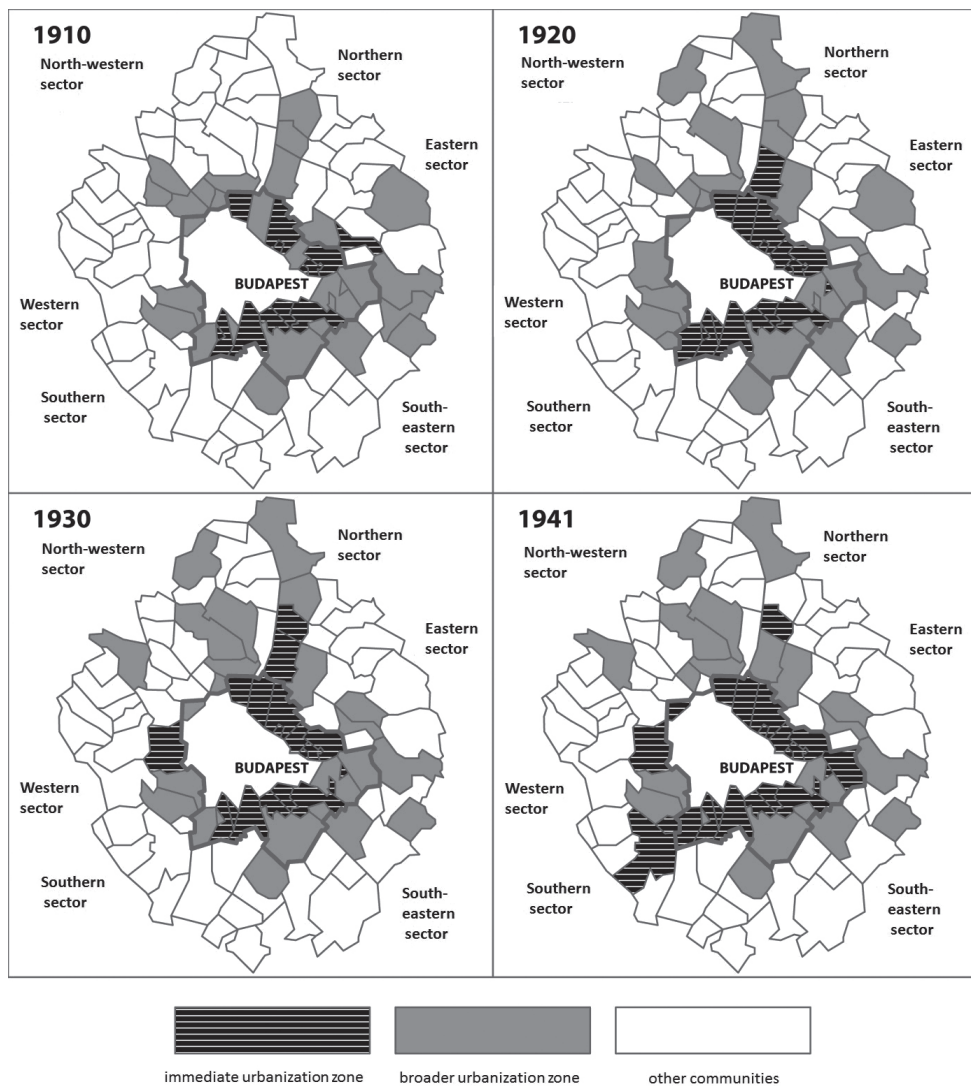
For this, we suggest the following simple method. After printing the principal component values, the communities having positive principal component values, i.e. the communities already showing urbanization tendencies (more strongly than what is typical for the area) can easily be selected. Then we subdivided the urbanization area revealed this way to an immediate and a broader urbanization zone in each case, in order to facilitate the harmonization of the findings of our study with the main view of the evolution school. For this purpose we broke down the territory defined by the highest and the lowest principal component values of the principal components created from the consensus data bases into three equal class intervals in each case, and then we identified the communities in the top third with the urbanization zone. The broader urbanization zone, logically, is defined by the group of communities excluded from the top third but still showing positive principal component values. The results gained in this way already reveal a great deal even in this extracted format about the extent and development of the urbanization area of the Budapest vicinity between 1910 and 1941 (c. f. Table 3, Map 1.).

**Table 3 • Intensity of urbanization processes in the recent Budapest Metropolitan Area (1910-1941)**

	Number of communities in the immediate urbanization zone	Number of communities in the broader urbanization zone	Number of communities excluded from the urbanization zone
1910	9	24	49
1920	16	23	47
1930	17	23	48
1941	22	21	46

(SOURCE: OUR OWN DATA BASED ON CENTRAL STATISTICAL OFFICE DATA)

**Map 1 • Intensity of urbanization processes in the recent Budapest Metropolitan Area (1910-1941)**



(SOURCE: OUR OWN DATA BASED ON CENTRAL STATISTICAL OFFICE DATA)

What is most conspicuous is that no significant shift is shown in the ratios of the urbanization zones and the communities excluded from the urbanization process recently. In other words, it can be said that – with a few exceptions – the communities included in the urbanization area in the beginning of our era remained in the urbanization area at the end of the era too, in the same way as communities outside the urbanization zone have not shift-

ed into the zone either.<sup>13</sup> A significant shift can be detected only between the immediate and the broader urbanization zones. At the same time, the nearly 250% increase of the number of communities included in the inner core did not correspond with a similar decrease rate in the number of communities in the broader urbanization area, which indicates that the majority of the shift can be explained by the fact that certain parts of the communities, that were parts of the immediate urbanization zone earlier too, became independent. In this way, the study unit comprising the Cinkota + Mátyásföld + Sashalom of 1910 became independent as Sashalom by 1941, the Kispest + Pestszentlőrinc study unit became Pestszentlőrinc, and the Rákospalota + Pestújhely study unit became independent as Pestújhely. The situation is similar in the case of the communities – which had probably already been undergoing significant urbanization – that became independent communities (Csömör → Rákosszentmihály; Rákoskeresztúr → Rákosliget, Rákoshegy; Sződ + Göd + Csörög + Sződliget → Göd) comprising parts of the immediate urbanization zone by seceding from communities belonging in the broader urbanization zone in 1910. All of this demonstrates that only six communities – namely, Albertfalva, Budakeszi, Nagytétény, Pesthidegkút, Rákoscsaba and Újpest – ascended from the broader urbanization zone to the immediate urbanization zone between 1910 and 1941. Lastly, we must mention that in the cases of certain communities the descension from the immediate urbanization zone into the broader urbanization zone or from the broader urbanization zone into the group of communities excluded from the urbanization occurs. Naturally, in most cases the probable cause of this shift is not actual “degression” but rather certain peculiarities of the compilation of the data base. E. g. the descension of the Sződ+Csörög+Sződliget study unit is explained by the 1921 secession of the Alsógöd+Felsőgöd community areas that can be attributed with rather favorable urbanization indicators. In other cases, this peculiar phenomenon may be explained by the fact that the principal component indicators do not point to the absolute values of the urbanization but to the urbanization levels of the given communities in comparison to each other instead. In other words, a community experiencing urbanization may descend in the case that its development rate is slower than that of other communities undergoing more dynamic urbanization within the Budapest Metropolitan Area. On the other hand, the shift of these urbanization indicators can be verified or refuted only in one way, which comprises the task of the second part of our study. Specifically, by the detailed processing of local history information and the location-specific data, and the reproduction of the local development process as precisely as possible. If, then, in the period between 1910 and 1941 the group of communities in the Budapest vicinity became variegated as a result of the impact of modernization, then we can add: it is not ascension into one of the urbanization zones that is primarily responsible for this variegation but, much rather, the more dynamic modernization of the communities belonging to the immediate or the broader urbanization zones in comparison to the communities excluded from the urbanization.

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13 Only the community 'Érd' was capable of fighting its way from a municipality still entirely absent from urbanization in 1910, into the direct urbanization zone by 1941.

### 3. CONCLUSION

From the results of our examination we can conclude that in the classical urbanization phase – according to the axioms in a far greater scale, that is generally accepted – we can observe the early commencement of suburban processes. The communities falling under the *'immediate urbanization zone'*, as well as the communities falling under the *'broader urbanization zone'* can be interpreted – as early as during the period of 1900-1945 – as parts of a special suburban area. In any case, this study should be regarded as preliminary. In the future, the authors aim to collect 'raw material' for their future research, based chiefly on archival sources in order to better understand the character of that suburban processes emerged clearly even in the first half of the 20<sup>th</sup> century by distinguishing communities falling under *'industrial area'*, *'labourer, employee and holiday-maker colonies'* and the *'agricultural supply area of the city'*. However, this preliminary study – especially the spatial and chronological identification of zones – and the characteristics of their spreading – may be suitable for specifying a model of the so-called 'evolutionary school of thought' on urbanization phases by means of a historical approach.

# international outlook •

Attila Marján

## THE EURO'S POLITICAL ECONOMY RELEVANCE

*This paper discusses the political economy relevance of the European common currency. Politics are just as important as economics – if not more important – to guarantee the longevity of a shared currency. The euro is clearly a political construct and its first significant crisis demonstrated that its survival is not only a political issue but also that it needs further political coordination among the Eurozone member states.*



### 1. HISTORICAL BACKGROUND

In a full monetary union, the other extreme, participating currencies disappear and are replaced by a single currency managed by a common central bank. The main advantages of a monetary union are a reduced exchange rate risk (as companies and citizens can be certain that the exchange rates remain unchanged) and no more exchange costs. The biggest disadvantage is that participating countries lose some of their key policy instruments for regulating the economy by delegating their right of making monetary policy and setting interest rates to a central body – in our case the European Central Bank in Frankfurt.

Relinquishing a country's sovereignty for a monetary union is by no means a novel phenomenon; in 1867 the UK, France and the USA – the three leading powers of the time – had already contemplated the idea of introducing a single world currency. The idea was soon abandoned as unrealistic. Monetary unions have come and gone on all continents. The four colonies of New England, on the east coast of the current USA, established one in 1750 by recognising each other's currencies. A more noteworthy one was the Latin Monetary Union of the late 19th century, created on France's initiative between the countries of Belgium, Bulgaria, Greece, France, Italy and Switzerland. This franc-zone (somewhat similar to what was in effect the informal deutschmark-zone in the 1960s and '70s), was characterised by the dominance of one strong currency. The Latin Monetary Union (LMU) had a single currency but lacked a common or coordinated monetary policy. Officially the LMU ended in 1926, but its practical significance disappeared long before that as the Anglo-Sax-

on world gradually switched to the so-called gold standard system. The Scandinavian Monetary Union, founded by Denmark, Norway and Sweden in 1873, also proved to be a short-lived experiment. Some monetary unions evolved as nation states emerged, for example that of the Prussian-dominated one created by Bismarck for the North German Confederation and the creation of its customs union (Zollverein). Under pressure from Bismarck, and after full German unification in 1871, Germans using dozens of different currencies accepted the Goldmark as sole legal tender even though the Reichsbank did not have exclusive competence to print money. Bismarck's monetary union was very stable, outliving the Great Depression and two world wars. The reason for its stability was simple: behind the currency was an increasingly unified state. Another, often forgotten monetary union between Belgium and Luxembourg has been in existence since 1921 and was only "overwritten" by the introduction of the euro.

The introduction of the euro was primarily politically motivated, symbolic of the spirit of European unity, with some finer considerations in the background: by pooling their monetary policy competences in a common bank, France and the Netherlands increased their independence from the German Bundesbank, which used to dictate European monetary policy (not by force but rather by market realities). On the other hand, by relinquishing the Bundesbank's hegemony in monetary policy, Germany made a *beau geste* towards European countries (especially France) anxious about its reunification. The symbolic move of giving up the D-mark, one of the most successful currencies of all time, served to demonstrate Germany's European-ness.

Nobel laureate Canadian economist Robert Mundell from 1998 said: "The euro will probably challenge the dominant position of the dollar, making it the single most important development in the international monetary system since World War I, when the dollar took over the pound's role as the leading reserve currency."<sup>1</sup> At this moment this seems like some rather bold statement. The US dollar has twice the share of the euro in currency transactions, and maintains its role as the currency of choice for invoicing in international trade, especially in the oil business. In EU-US trade relations, the dollar is used for settling accounts in 80% of bilateral trade.

## 2. THE CURRENT ECONOMIC AND POLITICAL FRAMEWORK

Since the euro was introduced, the world economy has undergone major changes, and the trends suggest that the unipolar global monetary system based on the dollar's absolute hegemony is shifting towards a bipolar system. The euro has appeared as a competitor to the dollar. When it was introduced, the euro became the number two reserve currency overnight, and has gradually been gaining in strength as such. All this time, the US economy has accumulated vast debts vis-à-vis the rest of the world (not least China) and has thus weakened astonishingly. The US current account deficit is double (6%) the historic high record-

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1 Posen, S. Adam, ed.: The Euro as Five: Ready for a Global Role? Special Report p18. Washington DC. Institute for International Economics.

ed during the years of the arms race under Reagan in the '80s. The United States has turned from the world's biggest lender to the world's biggest debtor, which shaved off about half of the dollar's value (against the euro) in just a few years.

The international clout of a currency is determined not solely by its role as a reserve currency. A clear indication of the euro's worldwide acceptance is its share in the international bond market (i.e. in the market of non-bank loans), where it already stole the show in early 1999 when – for a brief period – most bonds were issued in euros and not dollars. In the years prior to the euro's introduction, the situation was just the opposite: European currencies struggled to maintain their position, naturally competing against each other, while the dollar gained ground to the detriment of the yen. With the introduction of the euro, the dollar had a new competitor to face, one which has been advancing with giant strides. For non-Eurozone issuers the rule of thumb, however, is the following: when the target investors are European, the bonds are issued in euro, when it is a global issue (including Europe) the dollar is preferred.

Countries with close trading or institutional ties with the Eurozone generally use the euro as their key currency for influencing exchange rates, invoicing and payments (in addition to their own currencies, of course). Lebanon, Egypt and Israel all opted for euro-based loans in the international money market. Nevertheless, on the international scene, the euro still only plays a fundamentally regional role. It serves as a secondary currency in central and South-Eastern Europe and in parts of the Balkans and the Mediterranean, which is only logical as the Deutschmark, and to a lesser extent the Austrian schilling or the French franc, used to play the same role.

Europe is far from being unified, both culturally and economically. Europe's markets are not uniform, which impairs its international clout. However, this is not the main obstacle preventing the euro from becoming the world's leading currency. The real stumbling-block is that it is a currency without a country.

Politics are just as important as economics – if not more important – in positioning a currency on the global scene. Eurozone members are yet to sing from the same hymn sheet internationally, especially at forums such as the G7 or the IMF. The euro is a currency created by politicians but lacking a political image.

Even economic policy strategy is a matter of deep controversy in Europe. The “growth versus balance” question is not unique to Europe; the USA faces the same dilemma. In his essay of 2005<sup>2</sup>, Daniel Griswold, research fellow at the Cato Institute, went as far as to argue that, in the light of historic experience, the current accounts imbalance was a precondition to the growth of the US economy. Griswold analysed economic figures from the past two and a half decades and concluded that the growing deficit regularly yielded increased growth and employment. In comparison with the record US deficit of 620 billion, in 2004 Germany accumulated a global surplus of USD 200 million, but with an unemployment rate of over 11%. (The last time the US saw such a high unemployment rate was in 1982, when it had a negligible 5 billion USD deficit.) The USA, as the world's strongest economic power and the holder

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2 Daniel Griswold: Bad News on the Trade Deficit Often Means Good News on the Economy. p. 1-3. Free Trade Bulletin, no 14. 14, January 11, 2005.

of the number one global currency, is in many respects in a different position from Europe, especially since Europe is troubled by the peculiar situation of the two arms of economic policy moving to different beats. Monetary policy – i.e. the setting of interest rates (with a direct impact on economic growth and unemployment) – is made in Frankfurt by the European Central Bank, with the governments having no say whatsoever. The strings moving the other arm of economic policy, budgetary policy (i.e. what the state spends money on) are in the hands of the 28 governments. The European Commission is caught in between, trying to coordinate and orientate national budgetary policies by sanctioning member states that overspend and allow their budgetary deficit to exceed 3% of GDP.

How the rules supposed to guarantee fiscal stability in the euro area can be enforced and reinforced is a critical issue. News is regularly coming from Brussels about the stability pact and its bodyguard, the excessive budgetary deficit procedure. This is no coincidence: at any given time as many as a dozen member states – some already in the Eurozone – are in violation of the budget deficit ceiling.

The rules of the stability pact were proposed by Germany, wary of member states with poorer economic track records. Germany had to convince its citizens that the euro would be just as hard a currency as the D-mark was, and would not be jeopardised by other euro area countries under any circumstances. Essentially, the pact is a complex supervisory system to prevent crises through member states constantly keeping an eye on each other, with the excessive deficit procedure acting as a deterrent. The pact was born as a compromise between Germany and France. The Germans managed to realise their pet project and have their pact adopted, but the sanctions (fines) for offenders finally agreed upon were not quite the deterrent originally envisaged. Firstly, sanctions are not automatic, but depend on the discretionary decision of ministers of finance. Secondly, the time until the deposit becomes a fine is so long that it hardly forces governments to make the necessary corrections. Countries afraid of being sanctioned thus have time to explain the reasons behind their deficit and avoid being fined. The sanctions foreseen in the pact have never really been applied in practice; the two big Eurozone economies of France and Germany got off cheap, which largely discredited the pact. People started questioning the point of having the pact and whether its rules could be enforced. The problems surrounding the stability and growth pact are often traced back to the Maastricht convergence criteria, which – for the sake of simplicity and clarity – set objectives that disregarded real economic processes. The key shortcoming of the pact, critics say, is its inability to respond to changing economic circumstances in a flexible manner. This rigidity is most apparent during recession or years of stagnation, when the pact leaves little room for manoeuvre to stimulate the economy as such measures could temporarily increase the budget deficit.

“The euro is nothing more than a system of fixed exchange rates covered by a glossy coat of political paint. The malfunctioning rules of the euro area unite countries that would otherwise be economically incompatible and which could easily be wrecked by a handful of global hedge funds. The luck of the euro is that – for the time being – it is not in the interest of

hedge funds to do so”<sup>3</sup> Such views are easy to come across in the European – especially the British – press. The euro will disappear – American financial investors say. Are all of these opinions nonsensical, or is there some truth in it?

Historical experience shows that monetary unions are successful when they have among their members at least one economic power-house acting as the engine. Central institutions are also needed to control and enforce the rules. The most successful ones are preceded by a political union, as in the case of the USA, the UK or Germany. Price and wage flexibility is a fundamental criterion, so that wages can be limited in poorly performing regions, just as inter-regional transfers can be useful. Fixing and applying criteria on economic convergence also prove to be necessary. In the Eurozone, we can hardly talk about real flexibility of labour markets, just as we cannot talk about a political union either. The EU budget is not designed for major income transfers either, as it only disposes of 1% of GDP. The Eurozone meets all of the remaining conditions. The US federal budget is around EUR 3.3 trillion, compared with the EU “federal” budget of roughly 120 billion euros, a good part of which is transferred to non-Eurozone countries. The difference between the internal transfer capabilities of the two monetary unions is obvious. On the other hand, in the absence of a European identity, it is much harder to convince a German factory worker of the benefits of financially supporting Portuguese fishermen than to explain to a Californian why it is important to help the good people of Utah.

One can observe serious shortcomings in the operation of the European monetary union. These are partly caused by the imperfections of the institutional setup, and partly due to the increasing disparities within the euro area in terms of inflation, productivity, and growth rate. (The fact that Spain has accumulated a 9% current account deficit while Germany has a 9% surplus, also speaks volumes.) The gaps are growing, even though they should be diminishing, as we have seen. To make things worse, Europe is losing ground versus the US in terms of competitiveness. Both problems can be traced back to the same roots: the unwillingness of certain member states to carry out the necessary reforms and push ahead with modernisation. Prior to the introduction of the euro, governments were all for reforms as their participation in the single currency was at stake. Italians even had to pay a one-off ‘euro levy’ and they did not take to the streets in protest. As soon as people had the euro notes in their hands, the purse-strings came loose again. With the disappearance of national currencies depreciation is no longer a monetary policy option; the only instrument governments have at their disposal is to dismantle labour market obstacles and allow competition in all sectors, in other words to strengthen competitiveness through exposure to market forces.

At the time of the creation of the monetary union, it was generally believed that the success of the euro would hinge on two things. First and foremost on the reform of European markets: dismantling the welfare and bureaucratic rules that prevent the economy from unleashing its potential. Secondly, on building stronger political integration. The first is important because countries changing over to the euro lose the option of depreciating their

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3 In: Attila Marján: Europe’s Destiny, 2010. p. 243

national currency but must remain able to respond flexibly to changes in the world around them. The second is important because a successful stability-oriented economic policy requires social and political legitimacy. When preparing the introduction of the single currency, political union was temporarily taken off the agenda – in order to prevent national governments from exerting political pressure – the Central Bank was given full independence: nobody can just walk into the eurotower in Frankfurt to do a bit of lobbying. As a complementary measure, the stability pact was adopted with the aim of reining in member state overspending. As we can see, the institutional framework is built on mutual distrust: Community institutions without political legitimacy act as the guardians of economic stability vis-à-vis the politically legitimate member states that are not to be trusted. The question is, how long can this arrangement be maintained, when will the steam blow the lid off and who will get scalded when it does? One potential solution – call it an escape route, if you will – is to continue with political integration. But an even more pressing question is, if political integration continues, what will it mean for managing the economies of the eurozone: stability or a spending spree? Despite all of these difficulties, I believe that political integration should not be rushed only for the survival of the monetary union; the euro can wait for slower political integration, but not for slow market integration.

As the world's most powerful banker, US Federal Reserve Chairman Ben Bernanke wrote, "we must accept the Eurozone for what it is: a bold political project, which is not your textbook optimum currency zone, but works nonetheless, and as such cannot be judged by solely economic aspects but as part of the whole European project."<sup>4</sup>

The euro was created by politics – and what a good deed it was. Politics must also help preserve it, but not by taking the easy way out and exercising direct political control over exchange rate policy; instead, focus needs to be on completing internal market integration and agreeing to a higher degree of coordination of member-state economic policies. As André Sapir and Jean Pisani-Ferry put it: the euro area needs fewer routine procedures and more ability to act in times of real crises<sup>5</sup>. The Eurozone's approach to economic changes and political changes (such as enlargement) is still very legalistic, and still has no international strategy and proper representation in fora like the IMF. More profound economic coordination need not mean full harmonisation as that would impair the members' ability to conduct an economic policy best suited to their own conditions and economic cycles. And certainly should not mean the hindering of the Central Bank's functioning, but coordination of structural reforms. The euro is not only an important symbol and an economic stabiliser, but should also be the stepping-stone to more coherent European action on the international scene. It is not only the driving force behind economic integration, but also enhances European identity and reinforces Europe's global role. As Ottmar Issing puts it: *Der Euro* "is still an experiment whose outcome seems likely to remain uncertain for a considerable time to come."<sup>6</sup>

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4 In: Attila Marján: *Europe's Destiny*, 2010. p. 239.

5 Pisani-Ferry, Jean, et al.: *Coming of Age: Report on the Euro Area*, Bruegel Blueprint 4. p.4. 2008, Brussels

6 Ottmar Issing: *Europe: Common Money – Political Union?* p. 6. European Central Bank, 1999.

The Eurozone experienced its deepest crisis as from 2008. The European Commission, the European Central Bank and member states had to put in place a series of policy reforms to save the common currency and to get Eurozone economy back on track. It became obvious that the political and economic structure behind the currency union was insufficient and needed a significant overhaul and reinforcement. This recognition helped pave the way to a genuine economic union and gave a new impetus to plans to get closer to a European political union.

### 3. EUROPEAN ECONOMIC INTEGRATION IN POLITICAL PERSPECTIVE

Economy and politics walk hand in hand in the process of European integration. This has been clearly seen during the years of the euro crisis. During the worst crisis ever experienced by the EU as from 2008, the euro was not seen as the solution, rather than the source of the problem. But in fact, the lesson from the recent malaise is that the policy system behind the common currency needs significant reinforcement.

The euro is one of the most sophisticated results of the process of modern European integration. It is also a symbol of peaceful collaboration between European countries, which has been accompanied by, or has resulted in, unprecedented levels of peace, stability and prosperity in Europe.

In order to restore confidence in the single currency zone, a high-level fiscal union must be created, which will require further measures of economic integration, such as the creation of a European finance minister, a far bigger EU budget, and an effective bank supervisory authority at euro-zone level. Not all members will be able or willing to go that far in the medium term. A two-speed Europe has already come into existence in reality with the UK's decision to stand aside. Nevertheless, the dynamics of integration is uncertain. This is partly because the alliance between the 18 current members of the Eurozone is not a stable formation per se; for many of them, the bar will be set too high, and they will not be able to accept the degree of harmonisation needed. An additional factor is that integration is to proceed on an intergovernmental – rather than supranational – basis, and there will be a need to clarify the roles of the EU bodies, in particular those of the European Commission.

Despite its undoubted successes, modern European integration is – in historical terms – a fragile construct. The main reason for this is the absence of a precise self-definition. Europe is still a nascent formation, consisting of political compromises, a common system of law, a common economic zone, and a collection of political and institutional responses to crises. Although the peoples of Europe have lived side by side for thousands of years, they do not share traditions, living myths, a common identity or language; nor do they project a single image towards the outside world. The political class and the intellectual elite are just as divided: some want more Europe, while others think that even the present level of cooperation is far greater than desirable. The underlying reason is that no one has a clear picture of the function, goal and future development of the EU; there is no agreed vision.

By creating the euro (which was in many – especially in economic – respects either an irresponsible enterprise or a visionary act, depending on one's perspective), Europe crossed

the Rubicon: it pushed integration to a point of no return where it either presses on with a fiscal and political union or must bear the dire economic and social consequences of a break-up of the common currency.

Clearly, the present crisis is one of the most serious ones in the history of European integration. It is fundamentally a political crisis rather than a purely economic one. It is the consequence of a downward spiral of political and economic problems that mutually reinforce each other. At its centre lies a weakness of political vision in the EU and in the Eurozone. In economic terms, Europe is better placed than the USA; yet it is the Eurozone that has become the epicentre of the crisis<sup>7</sup>. History teaches us that monetary unions are unsustainable without political coordination and a fiscal union: a major economic crisis has now made this painfully clear to the Eurozone too.

In the history of European integration, crises have acted as the triggers of major political and institutional changes. Europe and the EU face many external and internal challenges, the scale of which has grown in recent decades (greater international competition, a whole series of demographic, social and budgetary problems). Member states have often made feeble and belated responses to such challenges with delayed reforms and poor management of immigration and demographic trends. At the same time the European Union has not been more robust either (see weak and eventually failed policy visions as the Lisbon programme, diplomatic and geopolitical difficulties due to the lack of a common EU position, years of impasse after the failed European constitutional project, etc.)

The question is whether the present crisis, which threatens the existence of the most important achievement of European integration – the common currency –, will lead to a “quantum leap” towards closer political integration and a multi-speed Europe. It may indeed result in any of the two.

In the medium term, the whole of Europe must prepare itself for a decade of sluggish economic growth. The gap in economic, social and political development within the Eurozone will only widen unless there is a major change of direction in the integration process. In the long term, the European welfare state is unsustainable in its present form (cf. ageing and shrinking populations, budgetary over-extension, an increasing competitive disadvantage vis-à-vis Asia). For this reason alone, it would seem sensible to pool European resources and to aim for a common European political and geopolitical agenda. But that will be the result of economic necessity rather than rationality.

A lot of discussion is taking place about political union. But one thing has to be clear: not any form European political union should or could mean the formation of a regional world government or the elimination of Europe’s nation states. The nation state is a European invention, and Europe’s nations will never be dissolved into an all-embracing pan-European political unity – if for no other reason than because for Europeans a sense of European identity barely exists, and Europe does not have a common language like the United States does. Political union could mean closer political integration, a real common foreign policy, a re-

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7 Allen, Franklin, et al. *Cross-Border Banking in Europe: Implications for Financial Stability and Macroeconomic Policies*. London: CEPR, 2011.

al European (or Eurozone) president, real European parliamentary elections, a real (perhaps Eurozone) budget, and a truly common economic policy. It could also mean unified European representation (a single seat and a single voice) in international organisations as well as stronger pan-European symbolism in daily life. The euro would still not be backed by a real country, but there would be regional integration with a far stronger political profile.

Currently, the key question concerning the future of European integration is whether or not a currency without a country is viable. The European Union has tried to establish a monetary union without a political union, but it has become increasingly clear that both are needed – or neither. Some thought that this ambiguous situation would lead to a great crisis, forcing the EU to establish closer political integration. That is to say, what cannot be achieved through nice words, will happen under pressure – as has been the case so many times before. Angela Merkel has a point saying that if the present crisis leads to the end of the euro, this would result in the collapse of European integration as a whole, at least in its present form<sup>8</sup>.

Not only is the common currency without a country; it also has no backing in the form of political institutions or even the basic foundations of economic integration. The EU barely has a budget: in a modern market economy, the budget amounts to 40-50 percent of GDP, while the EU budget amounts to just one percent of European GDP. Moreover, money is not spent on things that a “normal” budget would target, but for very different purposes, such as farm subsidies – which still account for almost every second euro spent. These factors add up to a budget ill equipped to make significant transfers between Eurozone members at different levels of development and in different stages of the economic cycle. An even more important deficiency of the Eurozone is its lack of a common economic policy and the cumbersome decision-making with unanimity required, for instance, to adopt common fiscal rules<sup>9</sup>.

A closer union in fiscal and economic policy terms – a European finance minister, eurobonds, common financial supervision, and a closely coordinated economic policy – seems inevitable, as does, in certain respects, a political union. All this will require a new treaty, an amended ECB statute, and above all political will. Closer integration may certainly be envisaged in the form of a multi-speed union. A radically different European space is appearing before our very eyes. And in this new space the role of Europe’s major powers will change, and there will also be a shift in the relative clout of countries. Germany may be the greatest beneficiary of the reshuffle with its new-found regional primacy. German political elite supports closer integration, which will help mitigate fears of German hegemony, but the German-French tandem will no longer be regarded as a partnership of equals. History (and necessity) has made the economy – and the common currency – the driving force of federalism, rather than political institutional development or the construction of a European cultural identity, which would have favoured the French. The French wanted the euro – and the whole process of integration – as a means of keeping the Germans in check, but in reality

8 <http://www.spiegel.de/international/germany/if-the-euro-fails-europe-fails-merkel-says-eu-must-be-bound-closer-together-a-784953.html>

9 Allen, Franklin. *Life in the Eurozone: With or Without Sovereign Default?* Florence: European University Institute, 2011.

the opposite happened. The principles of France's European policy – the multiplication of French power and capacities at the European and global level coupled with categorical inter-governmentalism – have been sorely wounded.

Historically speaking, hostility, rivalries and war are the norm on the European continent; periods of peaceful co-existence are the exception. Also, in historical terms, modern European integration (voluntary cooperation between sovereign states, based on the respect for common laws, and which was launched after World War II with a strengthening of economic and commercial relations but with the primary purpose of pacifying Germany) is a vulnerable formation. As a consequence, peace and solidarity on the European continent may soon be replaced by growing hostility – if the economic situation deteriorates and becomes crisis-ridden in a geopolitical milieu that is increasingly unstable. The fate of the boldest achievement and symbol of EU integration – the common currency – is intertwined with the fate of integration as a whole: an anarchic collapse of the euro would be accompanied by the break-up of the EU and political paralysis in Europe. The euro is fundamentally a political and symbolic creation; in its present form, it does not have firm economic foundations. In light of the above it is in the interest of the EU to save the euro by establishing a strong economic union. With its present architecture, rules and stakeholders (whether they are the EU-28, the EU-26 or the EU-18), the European Union is incapable of moving forward at the right speed and depth. In addition, European public opinion gives a cool reception to any initiative coming from above, from Brussels. The European Union – it seems – faces two possible scenarios in the long term. Under the first scenario, it passively allows the centrifugal forces (markets, member-state sabotage, public disinterest) to break it up or it ceases to exist in its present form, with the unplanned termination of the euro. All of this would be temporarily accompanied by an extremely grave crisis. Under the second scenario, in the extended lands of Charlemagne a new intergovernmental treaty may be adopted, resulting in strong economic policy integration and preserving the euro. The second and third groups of countries could join later based on new conditions (which would be far stricter than they are today). The historical and European lesson is that regional integration projects are far from everlasting, and often the temporary break-up of a poorly designed form of integration is the key to a restructured formation that guarantees long-term survival.

## THE ROLE OF THE VISEGRAD COOPERATION IN EU FOREIGN RELATIONS

*The Visegrad Group reflects the ongoing efforts of the countries of the Central European region to cooperate in a number of fields of common interest within the European integration. Despite the diverse roots of their religious and social backgrounds, particular economic and geopolitical interests, the Czech Republic, Hungary, Poland and Slovakia have always been part of a common civilization sharing cultural and intellectual values. The V4 concentrates on such issues as the future of cohesion policy, strategic programming and the regional development policy. The major task is to promote the EU growth potential by pursuing the most important initiatives such as completion of the Single Market or governance of the Economic and Monetary Union. The Visegrad Group should serve to better coordinate the V4 positions with regard to EU policy towards EaP countries, in particular Ukraine, Belarus and the Western Balkans. Another important aspect of the V4 cooperation within EU foreign relations concerns not only Central-Eastern and South-Eastern Europe, but also the collaboration with Japan, China, Israel or Egypt. Concerning the short-term challenges, it is essential to focus on networking and improving people-to-people contacts between Eastern and Central Europe through various national programmes and initiatives of individual V4 partners. From the Polish perspective, the aim of the Visegrad Group is to further strengthen the V4 position within international forums and to achieve a further EU enlargement. Concerning the issue of the V4 geopolitical position, it is natural that they will support the further sustainability of the EU project, the EU enlargement policy and the development of neighbourhood policy. The V4 should cooperate with the Eastern Partnership area in order to successfully complete the EU integration process which later requires further transformation.*



### 1. INTRODUCTION

One of the priorities of the Visegrad Group (also known as the ‘Visegrad Four’ or simply ‘V4’) is to engage in regional activity through the European Union, which constitutes a unique form of regional and political cooperation. Each V4 partner has the same opportunity of potential for action during the rotating Presidency which runs from early July to late June the following year. The Visegrad cooperation started in February 1991 when President

of the Republic of Poland Lech Wałęsa, President of the Czech and Slovak Federal Republic Václav Havel and Prime Minister of the Republic of Hungary József Antall signed the Visegrad Declaration, which has been treated as a form of cooperation of the three, and later four, post-communist countries<sup>1</sup>.

The Visegrad Group reflects the ongoing efforts of the countries of the Central European region to cooperate in a number of fields of common interest within the European integration. Despite the diverse roots of their religious and social backgrounds, particular economic and geopolitical interests, the Czech Republic, Hungary, Poland and Slovakia have always been part of a common civilization sharing cultural and intellectual values. Concerning institutionalization, the structure of the Visegrad Group is based solely on the principle of periodical meetings of its representatives at various levels.

All the V4 countries strived to become members of the European Union. Thus, it was perceived as a step forward in the process of mutual support in Europe. Finally, the goal was reached in 2004 by all of them joining the EU. The Visegrad Group has not come to compete with the existing Central European structures in the all-European integration efforts. Its cooperation is in no way focused on the weakening of ties with other countries, but instead, the Group aims at encouraging an optimum collaboration with all countries with the ultimate interest of democratic development in whole Europe. All the activities of the Visegrad Group are to build the European security and strengthen stability in the Central European region. This cooperation is perceived as a challenge to prove that the participating countries are able to integrate in the European Union structures as well.

## 2. FOREIGN POLICY PRIORITIES OF THE VISEGRAD GROUP

Within the foreign policy framework, the Visegrad Group focuses on current European affairs, holding the tradition of speaking with one voice in the EU area. The V4 concentrates on such issues as the future of cohesion policy, strategic programming and the regional development policy. The major task is to promote the EU growth potential by pursuing the most important initiatives such as completion of the Single Market or governance of the Economic and Monetary Union. By promoting solutions to overcome the sovereign debt crisis, the V4 partners, within both the euro and non-euro areas, are considered stronger, more unified and competitive actors in the global economy.

Within the scope of the Multiannual Financial Framework (MFF) 2014-2020, the V4 countries are to have a consistent position in key decisions covering EU funds and policies in negotiations and the compatibility of undertaken activities<sup>2</sup>. Concerning the coordination mechanism, the V4 has to support the Presidency of the EU Council in order to guarantee a final compromise, by which the V4 vision of Europe is meant. What is more, it is necessary

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1 Ministry of Foreign Affairs of Republic of Poland – Report of the Polish Presidency of the Visegrad Group July 2012 – June 2013 – Warsaw – 2013.

2 The Ministry of Foreign Affairs of Republic of Poland – Programme of the Polish V4 Presidency – Warsaw – 15<sup>th</sup> June 2012.

to cooperate with the European Parliament in the MFF negotiations with the aim of reaching the MFF political compromise. Moreover, the EU budgeting decisions for 2014 and 2015 are equally important to maintain support for cohesion policy funds and the general size of the EU budget for the next years. What is more, a major task of the energy security is to ensure broad-based support for the construction of a gas transport corridor, the security of oil supplies and the coordination of EU energy and climate policies.

The V4 Presidency of Poland<sup>3</sup> focused on further promoting and enhancing cooperation to conduct projects which support the development and implementation of the Eastern Partnership (EaP). However, the long-term priority, though seen as the key issue only for the Visegrad Group, is not only to cooperate with the EaP but also to increase the number of its participants. It can be achieved by inviting other EU countries to participate in the development of the Eastern Partnership, such as sharing transformation experience and aligning law with EU standards.

The Visegrad Group should serve to better coordinate the V4 positions with regard to the EU policy towards EaP countries, in particular Ukraine, Belarus and the Western Balkans. For example, the Polish Presidency has intended to boost V4 cooperation with representatives of the Belarusian civil society. During the same key time of Poland's V4 Presidency, the EU accession of Croatia on 1<sup>st</sup> July 2013 has not only encouraged other Western Balkan countries to participate in the EU enlargement process, but the foremost has received a strong political support. In relations with Western Balkan countries, it is advisable to share the V4 countries' experience in matters relating to the EU accession and the initial stages of EU membership. An idea worth considering is an initiation of meetings between the Visegrad Group and Western Balkan states. The adequate example of such a project is being implemented by Poland's National School of Public Administration (KSAP) in cooperation with the Polish Ministry of Foreign Affairs. The Eastern Partnership Academy of Public Administration (EPAPA) came into existence during the Polish presidency of the EU Council in 2011. The goal of this programme is to strengthen government administration in EaP countries (Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine) by organising specialized training programmes for civil servants. This constitutes an expert background essential for creating professional civil service in these countries. With the view of supporting the sense of regional ownership, the V4 continues to encourage Western Balkan states to strengthen their regional cooperation<sup>4</sup>. Such interactions in the field of development cooperation with an emphasis on development aid have to be achieved through better coordination, which Poland intends to build on the V4's development and transition experience initiatives. It aims to give them greater political and financial importance, particularly regarding Ukraine, Belarus and Moldova. The V4 partners coordinate the discussions concerning the respective positions towards the EU development policy agenda.

3 This was Poland's fourth Presidency of the Visegrad Group from July 2012 to June 2013. Previous Presidencies: 2000/1, 2004/5 and 2008/9.

4 Ministry of Foreign Affairs of Republic of Poland – „Eastern Partnership Academy of Public Administration” – [www.polishaid.gov.pl](http://www.polishaid.gov.pl) – 13<sup>th</sup> December 2013.

Another important aspect of the V4 cooperation within EU foreign relations concerns not only Central-Eastern and South-Eastern Europe, but also the collaboration with Japan, China, Israel or Egypt. It is essential to develop relations with all these countries in order to improve exchange in the fields of science, energy, culture, investment, trade and tourism.

### 3. POLAND IN THE VISEGRAD GROUP

Poland is by far the biggest member of the V4 group; however, all V4 countries have entered the EU family on the equal terms of a profound shared historical experience that shapes the societies and views today. They have brought a specific brand to the European stage. The decades under enforced Soviet communism have led them to a specific awareness regarding freedom, good governance and the willingness to make difficult decisions. Thus, they present certain unique expectations, and despite the “lost decades”, they are politically and morally entitled to their chance to attain progress. It is believed that the V4 has the huge advantage of being successful in today’s European Union. Its brand is worth developing because other, already established groups such as the Nordics or the Benelux are less represented in EU institutions. Building the specific brand refers to active cooperation, consultation and policy coordination. The voting power within the EU Council can be an adequate example, as they together have enough votes not only to exceed the numbers of France and Germany together but also are able to create powerful coalitions with other states.

Moreover, the essential task is to receive a fairer representation in international institutions concerning membership and the ratio of employees working there. It is worth mentioning that V4 partners are not interested in enhancing the overrepresentation of Western countries in EU institutions but are willing to motivate these countries to accept a joint EU representation at the Security Council or in international forums.

Poland’s V4 Presidency in the period 2004-2005 was supposed to bring a ‘renewed sense of joint action, especially in the framework of the European Union’<sup>5</sup>. To what extent have these assumptions been realized? The priorities of Poland’s V4 Presidency corresponded to the major challenges of Polish politics in the region in the following years. These were the issues that were at the same time on the EU agenda. Similarly, the same situation happened during the next Presidency of Poland in 2008-2009. Among the priorities were issues coincident with the direction of Polish European policy. In 2004, the Polish priorities were as follows: deepening the cooperation with countries covered by the European Programme of Neighbourhood Policy, increasing the involvement of the V4 in the intensification of negotiations of a new agreement between the EU and Ukraine, promoting the preparation of the pre-accession of Western Balkan countries, promoting free movement of citizens, implementing the idea of ‘Green Visegrad’.

Implementation of Polish interests through the Visegrad cooperation was facilitated by the fact that all partners within the EU appreciated the mutual cooperation. It was crucial

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5 Prof. Adam Daniel Rotfeld – Government information on the Polish foreign policy presented by the Minister of Foreign Affairs – at the session of the Sejm in Warsaw – 21<sup>st</sup> January 2005

to identify the levels of common interest. The first level consisted of the negotiations of the new Financial Perspective for the years 2007-2013. During the negotiations, Poland's vision was based on the Visegrad cooperation, although not limited to the V4. The Visegrad Four was cooperating extensively at the working level during the entire duration of the negotiations, which resulted in the adoption of joint declarations and their submission to the various EU forums. The Visegrad Group countries also cooperated in the implementation of community law in terms of Schengen. The support of the V4 to the pro-European aspirations of Ukraine has been of particular importance. The position taken by the V4 members was consistent with the Polish policy. The V4 declared that they will support countries aspiring to enter the EU.

#### 4. BENEFITS OF ENTERING THE EUROPEAN UNION

According to a report of the Erste Group, through participation in the EU, the GDP of the Visegrad Group has grown by about 1 per cent per year. Each of the four countries has also recorded a growth of GDP per capita – more than by double in Slovakia and Poland. National buying power (capacity) of the four countries has reached an average of 65 per cent for the old EU (EU 15). During ten years the pay gap has decreased by one third<sup>6</sup>.

The accession to the EU has provided companies from these countries with new opportunities to access a single market of over 500 million customers. This has brought benefits in terms of increasing exports with the growth noticeable in all four countries. Export of the Visegrad Group countries has been growing three times faster than that of the EU15. Export has become one of the most important assets of the region. Three of the four countries (Slovakia, Hungary and the Czech Republic) were ranked among the five most open economies in the EU. Currently, the Visegrad Group is the fourth largest exporter in the EU – an improvement compared to the sixth position of 2003.

The V4 performed well on world markets. The level of their exports to non-EU countries has increased fourfold since 2003. Together they have also become the second (after Germany) largest manufacturer of cars in the EU.

Quality of life in Poland, the Czech Republic, Hungary and Slovakia has risen more than in the UK and Germany during last ten years. 'Ten years after the EU accession, the socio-economic progress in V4 is plain to see. The EU membership has boosted both the economic strength and the relevance of V4 countries.' – emphasizes Juraj Kotian of the Erste Group<sup>7</sup>.

#### 5. CHALLENGES – CAN THE VISEGRAD GROUP SPEAK WITH ONE VOICE?

6 Artur Osiecki – Grupa Wyszehradzka silniejsza dzięki UE (The Visegrad Group stronger thanks to EU) – daily news paper „Rzeczpospolita” – Warsaw – 6<sup>th</sup> May 2014.

7 Erste Group – Research report of Visegrad countries – 10 years of EU membership – www.erstegroup.com – 23<sup>rd</sup> April 2014.

During the 10 years of EU membership, V4 countries have experienced economical growth and strong income convergence. In order to maintain the income convergence and utilize further benefits from the EU, the Visegrad Four needs to explore more possibilities in production and export, improve the quality of institutions and raise the share of EU funds. Moreover, there are several motivational factors toward which the V4 should orientate. The most crucial elements for Poland are the increase of spending on research and development and the transition to an innovative model of economy and administration. Slovakia should reform its public institutions and increase the flexibility of the labour market. Recommendations for Hungary are to increase the use of EU funds, reduce public spending and improve the employment rate. Czechs should reduce corruption and increase the efficiency of institutions, support the investment and diversification of energy sources<sup>8</sup>.

Concerning the short-term challenges, it is essential to focus on networking and improving people-to-people contacts between Eastern and Central Europe through various national programmes and initiatives of individual V4 partners. In order to facilitate the development of such networking, the V4 signed an agreement on a gradual and conditional exit of the visa regime during the Second Eastern Partnership Summit in September 2011. The V4 efforts of easing visas should be presented to the EU. These activities show that the residents of Eastern European countries are treated with more sensitivity and remarkable commitment on the V4 borders.

Speaking of the key projects in a long-term perspective, the Visegrad area needs an active agenda of effective, successful and efficient projects to extend the level of common interests and obligations. Even though the V4 has limited economic and financial tools, the idea is to encouraging the EU to include these needs in the scope of the EU's external financial instruments. Recently, there have been several projects focusing on the accession of the South Caucasus to the EU or the development of gas trade between Ukraine and Slovakia, Hungary and Poland.

Taking into account the current situation in Ukraine, the reason for continuing to strengthen the general EU policy towards Eastern Partnership countries and South Caucasus is even more visible, transparent and understandable. However, treating Ukraine and Moldova in the same way as Belarus or Armenia might be seen as quite risky and inadequate. The latter two have limited interest in Central Europe and the EU accession, contrary to Moldova with a fast pace of changes in progress. Such cooperation is mostly created to achieve free trade, democratic transitions, finalizing negotiations on Association Agreements, especially in the case of Georgia, Moldova and Ukraine. Towards Moldova and Ukraine, the EU should make a much more joined effort to offer them more ambitious propositions which come up to the countries' expectations as reflected in the political declarations on future accession. Besides, the Visegrad Group can engage them more in the V4 cooperation which can also help to ap-

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8 Dariusz Kałan; Marcin Zaborowski, Wojciech Lorenz, Jarosław Ćwiek-Karpowicz, Beata Górka-Winter, Artur Gradziuk, Roderick Parkes, Beata Wojna – East of Centre: Can the Visegrad Group Speak with One Voice on Eastern Policy? – Policy Paper of the Polish Institute of International Affairs – No. 5 (53), February 2013.

proach the EU and on the long run the V4 may serve as an EU group for the additional amelioration of the Eastern Partnership in negotiations with the EU.

Since a few more other countries from Central Europe have stated that they are interested in the Eastern Partnership, it should be a clear sign for considering a formation of a broader platform directed at east European countries. This would strengthen the position of the V4 in the EU and would also improve the ongoing Eastern Partnership programme of the new EU states. Bearing in mind the Visegrad Plus platform of cooperation, the V4 should promote the Eastern Partnership to a broader Central European structure<sup>9</sup>. Visegrad Four should cooperate within the European Union not only by consulting on current issues of common interests but also by actively contributing to the development of the 'Wider Europe – New Neighbourhood' policy and the EU strategy towards the new Member States.

## 6. CONCLUSIONS

The Visegrad Four can be regarded as one of the most successful initiatives in Central Europe. It consists of mutual relations at all levels – from political summits to activities with non-governmental associations and numerous networks of individuals. Twenty years ago the Visegrad Group was seen by many European countries as a group of partners without significance. Now the V4 has a rightful place with one credible voice that affects not only the V4 group but also the European Union as a whole.

From the Polish perspective, the aim of the Visegrad Group is to further strengthen the V4 position within the international forums and to achieve a further EU enlargement. It is important to maintain both EU and intra-group cooperation in order to defend the achievements of freedom, deepen the single market, maintain the positive attitude towards the common EU budget and strengthen the enlargement policy. Despite the persisting crisis, the V4 states pursue the integration process regardless of the expenses of transformation and other problems which may occur in aligning with EU requirements.

Concerning the issue of the geopolitical position of the V4, it is natural that they will support the further sustainability of the EU project, the EU enlargement policy and the development of neighbourhood policy. The V4 should cooperate with the Eastern Partnership area in order to successfully complete the EU integration process, which requires further transformation during its progression. And this can be a key role for the Visegrad Group.

Since rejoining Europe, the V4 countries – isolated from the rest of democratic Europe for over half a century – have markedly shown the EU their growth potential and ability to cope with challenges caused by globalisation. This cooperation has reached an impressive degree of intensity based on the mutual bonds and common interests of V4 states. Owing to this situation, the Visegrad Group has earned an adequate place in the political, social and economic European stage. One cannot treat the Visegrad Four as a sole unanimity, as accord-

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<sup>9</sup> Dariusz Kalan; Marcin Zaborowski, Wojciech Lorenz, Jarosław Ćwiek-Karpowicz, Beata Górka-Winter, Artur Gradziuk, Roderick Parkes, Beata Wojna – East of Centre: Can the Visegrad Group Speak with One Voice on Eastern Policy? – Policy Paper of the Polish Institute of International Affairs – No. 5 (53), February 2013.

ing to the EU, this cooperation provides a valuable additional impact on the regional stability while being beneficial for the whole EU.

As far as the future areas of the Visegrad cooperation in the EU are concerned, the Visegrad Group is likely to effectively support the interests of Central European EU Member States in order to articulate policy ideas important to the region and the entire EU. The offered opportunities include communication, emphasis on the objective community of the common interests and the role of regional and V4 cohesion. Moreover, Poland as being a part of the V4 wishes to follow the examples set during the past Presidencies and carry on changes and transformation based on their experience. The 'V4+' format proved that it is advisable to include other partners in the cooperation for the next projects as a way to further consolidate the achievements of the EU enlargement process and the potential of Eastern Europe.

These days, the four Visegrad Group countries within Central Europe have become known as the summary of contemporary European success. Václav Havel came to the Polish Parliament in 1990 stating that: '(...) we have an opportunity to transform Central Europe from what has been a mainly historical and spiritual phenomenon into a political phenomenon ... we can offer the inspiration to consider swift and daring solutions'<sup>10</sup>. That was and still remains the challenge for the V4. By cooperating, together they represent a common powerful brand – they constitute the essence of the Europeans who have not given up on Europe and are determined to make Europe a success.

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10 Václav Havel – Speech in the Polish Parliament (Sejm) – Warsaw, [www.visegradgroup.eu](http://www.visegradgroup.eu) – 25 January 1990.

prof. Ing. Ludmila Lipková, CSc.

## TEN YEARS OF SLOVAKIA'S MEMBERSHIP IN THE EUROPEAN UNION

*The paper analyzes the membership of the Slovak Republic in the European Union, the development of the Slovak economy during the 10 years of membership since joining the Union, participation in the financing and disbursement of funds from the EU budget, Slovakia's participation in the functioning of the single market, the euro area, the participation of Slovak citizens in elections to the European Parliament and outlines the future of Slovakia in the European Union.*



### 1. INTRODUCTION

The Slovak Republic is now one of the 28 European Union Member States. The process started in 1990 when it began to implement political and economic changes in the former Czecho-Slovakia. After January 1, 1993, following the establishment of the independent Slovak Republic, the aim of the individual citizens and government parties was to join the countries of the European Communities as quickly as possible.

Slovakia wished to belong to the community of states, for which the primary idea is to build democratic and legal states and prosperous economies and societies. The European Union membership has been and remains a guarantee of respect for these values.

The association agreements between the representatives of the Slovak Republic and the European Union were signed on October 4, 1993. On June 27, 1995 then Slovak Prime Minister Vladimir Meciar filed the application for membership in the EU. On May 16 – 17, 2003 a referendum on the accession of Slovakia to the EU was held. 52.15% of eligible voters took part in the referendum. 92.46% of the electorate voted for Slovakia's entry into the EU. The Accession Treaty between the Slovak Republic and the European Union was signed on October 4, 2003<sup>1</sup>. The Slovak Republic became, along with nine other states, a new Member States of the European Union on May 1, 2004. On January 1, 2008 the accession of Slovakia to the Schengen Agreement came into force. Since January 1, 2009 Slovakia has been a member of the European Monetary Union.

<sup>1</sup> <http://www.europskaunia.sk/tlac.php?id>.

## 2. PLACE OF SLOVAKIA IN THE EUROPEAN UNION

Slovakia – with a population of 5.5 million, i.e. 1.0% of the total population of the EU and an area of 49,000 km<sup>2</sup> (1.1% of the EU area) – is one of the small states<sup>2</sup>.

Slovakia is an advanced industrial state. The structure of gross domestic product consists of agriculture (2.68%), manufacturing (24.26%), and services (wholesale and retail trade, repair, information, communications, financial services and insurance, professional, scientific and technical activities, public management, health care, etc. – 73.02%)<sup>3</sup>.

The GDP p. c. currently reaches € 19,400 in purchasing power parity, which is about 76% of the EU average. In the year of the accession to the EU, it amounted to 50% of the EU15 average<sup>4</sup>. A relative improvement was mainly due to the enlargement of the European Union with poorer countries (Bulgaria, Romania and Croatia), thus reducing the average level of GDP p. c. of the Communities.

With the GDP p. c. less than 90% of the European Union average, Slovakia belongs to the poor countries of the Union, which entitles it for funding from the Cohesion Fund.

The average wage in Slovakia amounts to € 835<sup>5</sup>. The average hourly wage in euro area Member States amounts to € 28, while in Slovakia it is only € 8.3<sup>6</sup>.

The territory of Slovakia is divided into four regions according to the NUTS 2: Bratislava (186%), which is the fifth richest region in the EU, and the other three regions, which belong to poor regions – West Slovakia (72%), Central Slovakia (59%) and East Slovakia (51%) because their GDP p. c. is less than 75% of the EU average<sup>7</sup>. The inclusion of the poor regions allows the three Slovak regions to be eligible for funding from the Structural Funds.

During the ten years of membership Slovakia paid € 5.8 billion to the common budget of the European Union in the framework of compulsory payments – part of the harmonized tax, the share of gross national income, the share of the import duties. For the same period, Slovakia received € 12.86 billion from European Union funds, i. e. net income amounted to € 7 billion<sup>8</sup>.

The Slovak Republic, during the ten years of its membership in the European Union, used funding from the Cohesion Fund and the Structural Funds for the construction of 100 km of motorways and roads, the upgrading of 1,830 km of roads, the modernization of 100 km of railways, the modernization of 1,020 schools, the establishment of 208 social care units, the creation of 130,000 new jobs, etc.<sup>9</sup>

2 [www.eurostat.eu](http://www.eurostat.eu).

3 <http://portal.statistics.sk/showdoc.do?docid=67071>.

4 <http://www.stat.ee/299560>.

5 <http://style.hnhotline.sk/vikend-140/eu-v-cislach-alebo-co-ste-nevedeli-614691>.

6 <http://www.cas.sk/clanok/247829/sokujuce-vysledky-prieskumu-slovaci-su-chudaci>.

7 [http://ec.europa.eu/regional\\_policy/atlas2007/slovakia/index\\_en.htm](http://ec.europa.eu/regional_policy/atlas2007/slovakia/index_en.htm).

8 Vstup do únie bol pre nás top biznis, *Hospodárske noviny*, 30.4.2014.

9 Vstup do únie bol pre nás top biznis, *Hospodárske noviny*, 30.4.2014.

**Table 1 • Payments and receipts of Slovak Republic to the EU budget (EUR mil.)**

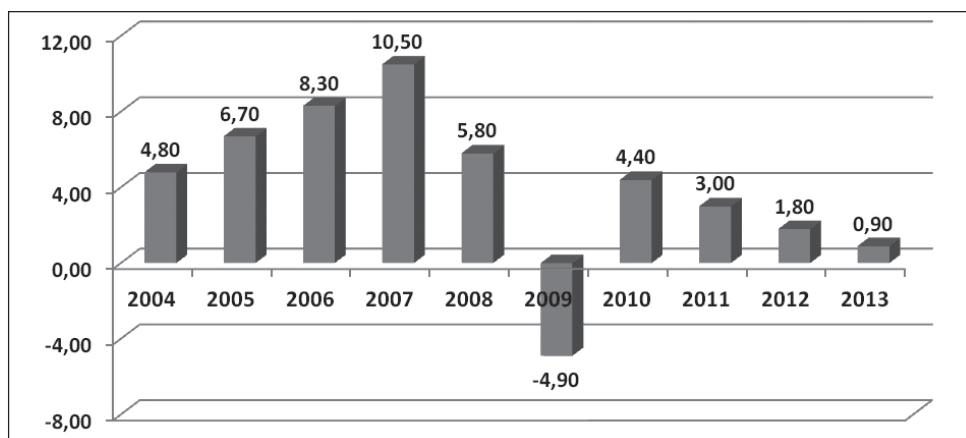
Year	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Payments	219.6	359.0	401.6	519.2	594.9	711.6	647.3	693.7	742.8	838.35
Receipts	388.0	609.5	696.2	1,082.6	1,241.8	1,192.4	1,905.0	1,785.1	2,286.8	1,978.5
Difference	168.4	250.5	294.6	563.4	646.9	480.8	1,257.7	1,091.4	1,544.0	1,140.15

SOURCE: VSTUP DO ÚNIE BOL PRE NÁS TOP BIZNIS, HOSPODÁRSKE NOVINY, 30.4.2014.

Slovakia is still a net recipient from the EU budget. Since its entry into the Union as a poor country, it has been drawing funds from the Cohesion Fund. Three of the four Slovak regions belong to the poor regions regarding their economic level, which entitles them to funding from the Structural Funds. In the years 2014 – 2020, Slovakia can draw € 20.4 billion, for Cohesion Policy programs € 14 billion, and for agriculture support € 4.6 billion<sup>10</sup>.

### 2.1. Changes in the Slovak economy during the 10 years of European Union membership

During the 10 years of membership in the European Union, significant changes have taken place in the Slovak economy. Changes leading to the improvement or deterioration of the economic situation over the last ten years have been influenced by three main factors: the economic policy of governments, membership in the European Union, and the global economic crisis.

**Figure 1 • GDP growth (in %) during the ten years EU membership of the Slovak Republic**

SOURCE: NATIONAL BANK OF SLOVAKIA

<sup>10</sup> <http://www.webnoviny.sk/ekonomika/clanok/820506-desat-dovodov-preco-je-slovensku-v-europskej-unii-lepsie/>.

After joining the European Union, the Slovak economy showed an increasing rate of GDP growth. However, it is not possible to quantitatively prove that joining the European Union was the impetus for these economic activities. Economic growth was halted due to the global economic crisis, when demand on world markets decreased.

The economic growth peaked in 2007. FDI inflow slowed down after 2004 due to the deceleration of privatization. The inclusion of Slovakia into the single market of the European Union encouraged new investors such as Kia Motors, Samsung and others who use the non-barriers EU single market to invest in Slovakia. FDI realization in Slovakia comes from 90% of European Union Member States (Germany, Netherlands, Austria, Hungary, France and others)<sup>11</sup>. Foreign companies use state of the art technology in their operations, which leads to the modernization of the Slovak economy and society. FDI is an important factor in the creation of new jobs.

**Table 1 • Foreign direct investment in Slovakia in 2004 – 2012 in billion USD**

Year	2004	2005	2006	2007	2008	2009	2010	2011	2012
FDI	4.03	3.11	5.80	4.01	4.87	-6.08	1.77	2.14	2.82

SOURCE: WWW.UNTCTADSTAT.UNCTAD.ORG

Before Slovakia's accession to the EU (in 2003), the share of exports to the European Union Member States was 83% of the total exports from Slovakia, and the share of imports was 73%. Currently (in 2013), the imports from Member States of the European Union stands at 63.6% and exports at 83.7%. From these quantitative indicators we can conclude that joining the European Union did not have a major impact on the territorial structure of exports and imports of Slovakia<sup>12</sup>.

The fundamental problem of the Slovak economy is the high unemployment rate. Unemployment in the Slovak economy has started growing during the time of the joint state of Czecho – Slovakia, when the production and export of weapons were seriously limited. Similarly, Slovakia significantly reduced production in the light industry, whose production was destined for export to the former USSR. Also, domestic consumption of light industry products has been replaced by cheap imports from Asian countries. Thus, the lost jobs have not been replaced by creating new jobs until today. Unemployment remains well above the average unemployment rate of the European Union.

The lack of job opportunities in the Slovak economy was partly offset by the entry into the single market, which ensures free movement of labor.

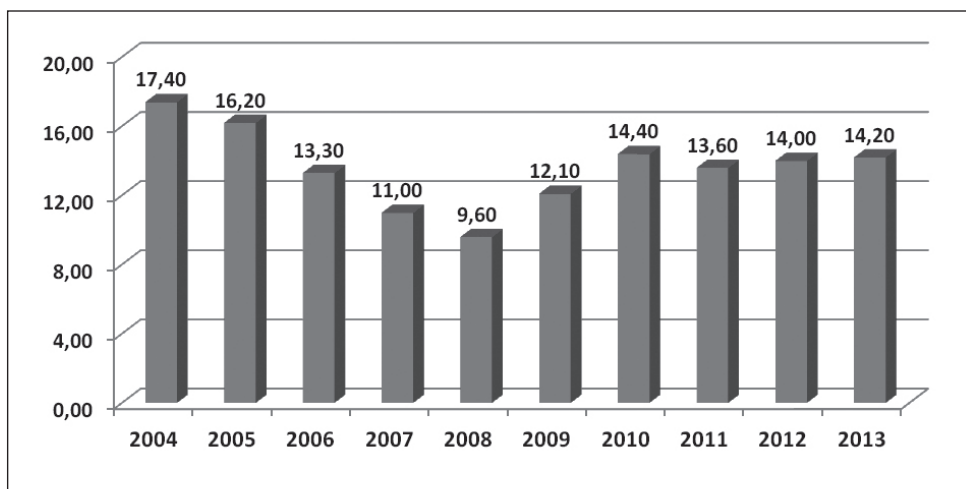
11 <http://www.webnoviny.sk/ekonomika/clanok/820506-desat-dovodov-preco-je-slovensku-v-europskej-unii-lepsie/>.

12 [www.ssu.sk](http://www.ssu.sk).

Slovakia is a country with a high migration for work. One year after Slovakia joined the European Union 120,000 Slovak citizens were working abroad; in 2007 this number reached 250,000. Currently it is about 140,000.

Emigration of the citizens of the Slovak Republic to the European Union Member States creates labor market imbalances. Emigration culminated in 2007. The highest emigration rate from Slovakia was between 2004 and 2007, when approximately 4% of the active workforce went to Great Britain, Ireland and Sweden<sup>13</sup>. Since 2008, the whole EU has been marked by the crisis. Slovak citizens most often emigrate to work in the Czech Republic, Austria, Hungary, Germany, Great Britain and Ireland.

**Figure 2 • Unemployment rates in the Slovak Republic in 2004 – 2013 (% of economically active population)**



SOURCE: [HTTP://PORTAL.STATISTICS.SK/SHOWDOC.DO?DOCID=1801](http://portal.statistics.sk/showdoc.do?docid=1801).

The economy is gradually consolidating. For 2014, the National Bank of Slovakia predicts a growth of 2.1% and for 2015 in the amount of 3.1%<sup>14</sup>. To tackle the problem of unemployment, the Slovak economy should show more than the 3% growth, because only growth above this value creates new jobs.

<sup>13</sup> <http://www.podnikam.weboviny.sk/ekonomika/48/migracia-praca-unia/35350>.

<sup>14</sup> [www.nbs.sk](http://www.nbs.sk).

**Table 3 • Changes in the Slovak economy (during ten years of EU membership)**

Indicator	2003	2013
GDP annual change in %	4.8	0.9
Average inflation in %	8.5	1.4
Unemployment in %	17.4	14.2
Number of unemployed in thousands	459.2	386.0
Average monthly wage in EUR	477	824
Public finance deficit (% of GDP)	-2.8	-2.8
Public debt (% of GDP)	42.4	55.4
<b>Changes in the economy during 10 years (2003 – 2013)</b>		
How much more powerful is the Slovak economy?	by 49%	
How much more do Slovaks earn?	by 72%	
How much higher are prices?	by 39%	

SOURCE: [HTTP://WWW.INVESTUJEME.SK/DESAT-ROKTOV-V-EU-MOZME-SI-DOVOLI-KUPIT-VIAC/](http://www.investujeme.sk/desat-rokto-v-eu-mozme-si-dovoli-kupit-viac/)

### 3. ENTRY INTO THE EUROPEAN MONETARY UNION

Since January 1, 2009 Slovakia has been a member of the European Monetary Union. The introduction of the euro as the national legal tender brought many benefits for Slovakia. However, some benefits are overrated such as the reduction of transaction costs due to the exchange of the national currency to the euro as well as the reduction of exchange rate risks. A significant disadvantage is the loss of a significant part of economic policy – the independent monetary policy – and of the opportunity to respond to developments in the global economic situation by changing the exchange rate of the national currency. After the outbreak of the economic crisis, partially due to the absence of a national monetary policy, Slovakia has experienced the largest drop in the Visegrad countries. However, currently, thanks to the euro, it is the fastest growing.

Slovakia, as a member of the euro area, is more tied to the Eurozone economies and must accept the present and future obligations and conditions of the European Monetary Union. However, the political party Freedom and Solidarity (SaS) opposed Slovakia's contribution to the first loan to Greece. Slovakia played an important role in solving the debt crisis. Due to the negative attitude of the Eurosceptic SaS party in the National Council of the Slovak Republic, the amendment to the Lisbon Treaty – required for the establishment of the European Stability Mechanism – was not approved the first time. Prime Minister Iveta Radicova tabled a proposal for the amendment of the Lisbon Treaty again. She teamed up the approval of changes to the Lisbon Treaty in the parliament with a vote of confidence for the government. The amendment approval to the Lisbon Treaty has succeeded only with the con-

sent of the opposition party SMER, which has conditioned its positive vote with the vote of confidence for the government.

Slovakia's participation in the European Monetary Union meant the downfall of the government on October 12, 2011 and early parliamentary elections in which the pro-European oriented SMER party won. Slovakia, as a shareholder with a share of 0.824% on the European Stability Mechanism, has cash flow obligations of € 620 million and a further 5.8 billion as liabilities<sup>15</sup>.

Funding for the European Stability Mechanism and the European Financial Stability Fund, under which Slovakia participated in the bailout of Greece, Spain, Ireland, and Cyprus increased the debt of our country.

**Table 4 • Indebtedness of Slovakia (% of GDP) and funding rescue mechanisms – the EFSF and ESM**

Year	2011	2012	2013	2014	2015
W/o financing	41.5	48.4	49.9	50.0	51.3
W/ financing	43.4	52.7	54.8	55.2	56.2
Debt increase	1.9	4.3	4.9	5.2	4.9

SOURCE: EÚ NÁM DALA OBCHOD AJ ZBYTOČNÉ REGULÁCIE, HOSPODÁRSKE NOVINY 29.4.2014.

The introduction of a common currency affected neither the inflow of foreign direct investment into the Slovak economy nor the volume of foreign trade with the euro area Member States. Nevertheless, the people of Slovakia regard the common currency positively.

#### 4. ELECTIONS TO THE EUROPEAN PARLIAMENT 2014

On May 24, 2014 the country held elections to the European Parliament. 13.05% of eligible voters attended the elections<sup>16</sup>.

Eight political parties gained seats for Members of the European Parliament. The largest share of votes was won by the ruling party SMER – 24.09% – with a mandate for four deputies; two deputies for Christian Democratic Party – 13.21%, Party of Democratic and Christian Union – Democratic Party – 7.75%; the mandate for one deputy for Ordinary People and Independent Personalities – 7.46%, NOVA – 6.83%, Freedom and Solidarity – 6.66%, the Hungarian Coalition Party – 6.53% and Most – Hid 5.83%<sup>17</sup>.

One of the thirteen Members – a member of the Freedom and Solidarity party – is a representative of a Eurosceptic party. Other mandates include pro-European parties.

15 EÚ nám dala obchod aj zbytočné regulácie, Hospodárske noviny 29.4.2014.

16 [http://www.europskyparlament.sk/spravodajstvo\\_a\\_aktivita/aktivita/activity.2014/](http://www.europskyparlament.sk/spravodajstvo_a_aktivita/aktivita/activity.2014/).

17 [http://www.europskyparlament.sk/spravodajstvo\\_a\\_aktivita/aktivita/activity.2014/](http://www.europskyparlament.sk/spravodajstvo_a_aktivita/aktivita/activity.2014/).

Participation in the elections to the European Parliament was the lowest of all European Union Member States. Interest of the citizens in these elections since 2004, when the country held European elections for the first time, has been gradually decreasing. In 2004 voter turnout was 16.7% and in 2009, 19.64%<sup>18</sup>. The willingness of voters to attend elections is declining in all Member States. Voter apathy is explained by the view of voters that their voice has very little influence on events in the European Union. The low participation of Slovak voters is probably also enhanced by the overall negative economic situation in Slovakia and by the particularly high unemployment. The use of funds from the European Union – the Structural and Cohesion Funds – are often criticized for corruption.

In the European Commission's report on corruption, the Slovak Republic occupied the 24th place. Among Member States of the European Union there are only worse conditions regarding corruption in Italy (25th), Romania (26th), Bulgaria (27th) and Greece (28th). The report criticizes the independence of the judiciary, the problematic prosecution of corruption, the opaque financing of political parties and the non-transparent system for drawing funds from the European Union. As stated by the EU Commissioner for Home Affairs Cecilia Malstrom: "Corruption undermines citizens' trust in democratic institutions and the rule of law, damaging the European economy and depriving the State of much needed tax revenue."<sup>19</sup>

## 5. CONCLUSION

Slovakia's membership in the European Union means a stable and qualitatively better position for the country in the world community. Benefits of membership in the European Union for ordinary citizens include the freedom of movement within the territories of all States of the Union, as well as economic opportunities abroad.

Particularly positively assessed is the mobility of students who have the opportunity to complete part of their studies at universities of European Union Member States through the Erasmus programme with the financial support of the European Union. During the period of Slovakia's membership in the European Union, for example, over 20,000 Slovak students have studied under the Erasmus programme abroad<sup>20</sup>.

Slovakia's participation in the single market attracted FDI into the economy, not only from the Member States of the European Union but also from other countries in the world. Slovakia has gained substantial funds for modernization during the 10 years of its membership in the Union, as indicated above.

In the Slovak society, however, there are many criticisms of the European Union membership. The relatively low competitiveness of the economy of Slovakia is exploited by transnational corporations. Despite the declared positive results in the economy, the Slovak economy is not converging with the most developed economies in the European Union. When compar-

18 [http://www.euractiv.sk/verzia-pre-tlac/zoznam\\_\\_liniek/volby-do-europskeho-parlamentu](http://www.euractiv.sk/verzia-pre-tlac/zoznam__liniek/volby-do-europskeho-parlamentu).

19 <http://www.cas.sk/clanok/272072/nelichotiva-sprava-o-uplatkarste-v-eu-v-rebricku-korupcie>.

20 <http://www.webnoviny.sk/ekonomika/clanok/820506-desat-dovodov-preco-je-slovensku-v-europskej-unii-lepsie/>.

ing the GDP p. c. in 2004 and 2013 of the richest country of the European Union, Luxembourg, with that of the Slovak economy, we find that Luxembourg achieved a GDP p. c. of 61,629 USD in 2004 and Slovakia of 13,553 USD. Luxembourg was 4.547-times richer in 2004 than Slovakia. In 2013 Luxembourg reached 110,423 USD and Slovakia 17,706 USD. The difference compared to 2004 increased to 6.23 times. From this we can conclude that, at least between these two countries, not only there is no convergence but there is a slight divergence.

In order to achieve a bigger economic growth, it would be appropriate to focus national economic policy more on growth and export. Many measures that would lead to better results are, however, limited by our membership in the European Union.

Often criticized is the state of the Slovak agriculture and the food self-sufficiency of Slovakia in connection with EU membership. We must agree with the view that the agriculture in the so-called new Member States is discriminated against in comparison with the so-called old Member States. For comparison, we state the rate of food self-sufficiency in selected countries of the European Union: Germany (94%), Poland (85%), Czech Republic (72%), Hungary (71%), Slovakia (50%)<sup>21</sup>. Food self-sufficiency of Slovakia, however, recorded a downward trend before joining the European Union. In addition to the European Union – free movement of subsidized food from rich countries of the Union within the single market – we need to look for reasons for the fall also in the small general support for agriculture in Slovakia.

The views of the Eurosceptic party representative Richard Sulík, who became a member after the last elections to the European Parliament, on the European Union are sufficiently critical. He argues that the majority of Slovak citizens sobered up from the EU after the 10 years of our membership. The second critical remark is directed at the increase of officials in the European Union's institutions – an increased bureaucracy in Brussels, which often make unreasonable and inconsistent regulations, measures; for example the EU banned menthol cigarettes for health reasons, but subsidizes tobacco growers with millions of euros<sup>22</sup>.

In conclusion, the accession to the European Union was the wish of the majority of citizens of the Slovak Republic. After ten years of membership, Slovakia has achieved many positive results through its membership in the European Union. Many citizens and experts of Slovakia regard our membership in the EU more critically after a decade than before joining the Union. Nevertheless, a more optimal way for the further economic development of Slovakia than participation in integration processes does not currently exist.

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21 [www.polnoinfo.sk](http://www.polnoinfo.sk).

22 Sulík, R.: Desiat rokov v Európskej únii, *Hospodárske noviny* 28.4.2014.

## LATVIA'S FOREIGN POLICY: 10 YEARS OF EU MEMBERSHIP

*This article aims to address the impact of EU membership on Latvia's foreign policy since 2004. It looks at five key aspects of Latvia's foreign policy – relations with the EU's eastern neighbours, the development cooperation policy, relations with Russia, the cooperation of the Baltic States, and the diaspora policy – in order to assess the effects of EU membership. The article finds that the impact of EU membership varies. The influence is at its strongest with regard to Latvia's development cooperation policy, which was largely initiated by the EU membership. With regard to the European Neighbourhood Policy, it has strengthened Latvia's already present willingness to contribute to the development of countries such as Moldova, Georgia, Ukraine, and Belarus. While the EU membership initially had a restrictive effect on the cooperation of the Baltic States, it has become apparent over time that the Baltic cooperation is useful both within the EU context and outside of it. Massive outward migration, in large part a consequence of EU membership, has strengthened the need for a more coherent diaspora policy. The relationship with Russia is probably the element of Latvia's foreign policy that is the least affected by the EU membership, both because Russia prefers bilateral relations with Latvia over a multilateral approach and because of the significant hard security aspect present in Latvian-Russian relations.*



### 1. INTRODUCTION

For Latvia, the ten years since joining the EU in 2004 have been a rollercoaster.<sup>1</sup> In terms of economic growth, Latvia has made a full circle. After becoming an EU member state, Latvia's GDP growth exceeded 10% for three years in a row (2005-2007) making it possible to become the fastest growing economy in the EU. However, the economic boom turned out to be short-lived, and very soon Latvia made headlines when its GDP shrank by more than 17% in 2009 alone.<sup>2</sup> It took several years of painful austerity measures and a loan from the IMF and the European Commission to survive the economic downturn, and by 2011 Latvia had re-

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1 The rollercoaster analogy has been adopted from Ozoliņa, Ž. Latvia. In *Life in Post-Communist Eastern Europe after EU Membership*. OBeachain, D., Sheridan, V., Stan, S. (eds.). Routledge, 2013. pp. 139-162.

2 Eurostat data.

turned to a solid economic growth once again being one of the fastest growing economies in the EU. Moreover, the political party Unity, whose Prime Minister Mr. Valdis Dombrovskis was in power during the worst part of the recession, has just won the European election in May 2014 as they managed to clinch 4 out of 8 seats Latvia has been allocated in the European Parliament.

This article looks at Latvia's foreign policy since 2004. During the past ten years it has mostly been affected by Latvia's double membership in the EU and NATO and by the economic crisis (2008-2010). The economic downturn has impacted Latvia's ability to achieve its foreign policy objectives by significantly reducing the available financial means. Two of the most important ministries charged with the task to formulate and implement Latvia's foreign policy – the Ministry of Defence and the Ministry of Foreign Affairs – saw their budget decrease during the economic recession by 46% and 36% respectively.<sup>3</sup> While the economic crisis had a largely restrictive impact on foreign policy, the EU and NATO memberships provided Latvia's foreign policy with new impetus.

Although the NATO membership has certainly been an important factor in shaping Latvia's security policy, the impact of the EU membership on Latvia's foreign policy, as the subsequent chapters will make it clear, has been no less profound.<sup>4</sup> This article aims to assess the impact of the EU membership on five key aspects of Latvia's foreign policy: the European Neighbourhood Policy (later Eastern Partnership),<sup>5</sup> the development cooperation policy, relations with Russia, the Baltic cooperation, the diaspora policy. All of the abovementioned foreign policy aspects are shaped by Latvia's EU membership in one way or another. Thus, the impact of the EU membership on the foreign policy of Latvia definitely merits further attention.

## 2. THE EASTERN NEIGHBOURS OF THE EUROPEAN UNION

In the run-up to the EU and NATO membership, the foreign policy of Latvia was largely focused on obtaining support from the 'old' member-states. This trend, however, began to change after the Prague (NATO) and Copenhagen (EU) summits late in 2002. Latvia would have probably decided to intensify relations with the EU's eastern neighbours anyway, but three additional factors made this shift in the foreign policy of Latvia almost a certainty. First, at the time of the EU enlargement in 2004, a new policy – the European Neighbourhood Policy (ENP) – was adopted by the EU. Being part of the EU external relations, this policy aimed

3 Data provided by the Latvian Ministry of Defence and the Latvian Ministry of Foreign Affairs.

4 This article does not address the hard security aspects of Latvia's foreign policy as these are mostly related to the NATO membership. Thus, Latvia's participation in Iraq and Afghanistan as part of a larger multi-national force is not covered by this article. It has to be noted though that NATO remains the cornerstone of Latvia's security policy. For further discussion on the Baltic States' NATO membership see: Rostoks, T. *Baltic States and NATO: Looking Beyond the Article V*. Working paper series, Finnish National Defence University, 2013.

5 The chapter on Latvia's relations with the EU's eastern neighbours also addresses the issue of economization of foreign policy to some extent. This is a phenomenon that reflects the growing interest of Latvia's business community in utilizing foreign policy in order to advance its economic interests. The economization trend of foreign policy became more pronounced during and after the economic crisis.

at avoiding new dividing lines in Europe and assisting development and democratization efforts in the EU's southern and eastern neighbours. Latvia saw this initiative as an opportunity both to contribute to the EU's external relations and to intensify relations with the EU's eastern neighbours. Second, the ENP was created at a time when fundamental change began to unfold in Georgia (the Rose revolution) and Ukraine (the Orange revolution), which increased interest in these countries from the European perspective considerably. Third, the EU membership meant that Latvia had to become a donor country and provide aid to developing countries (Latvia's development cooperation policy is further elaborated in the next chapter). The EU's eastern neighbours seemed to be a perfect choice for the emerging Latvia's bilateral development cooperation efforts because countries like Georgia, Moldova, Ukraine, and Belarus were also important partners for Latvia for security and economic reasons.

Latvia's contribution to the ENP and later to the Eastern Partnership (EaP) was seen as unproblematic as long as it did not provoke negative reactions from Russia. Initially, after the EU enlargement in 2004, Russia did not see the ENP as a threat to its influence in post-Soviet countries. There were concerns on the part of Latvia though that continued support for its eastern neighbours may conflict with Russia's interests in eastern ENP countries.<sup>6</sup> Despite this worrying possibility, Latvia made supporting its eastern neighbours a key foreign policy priority. This trend had a number of tangible aspects. Latvia opened an embassy in Georgia in 2006 and in Azerbaijan in 2005. Latvia has provided development cooperation aid almost exclusively to eastern ENP countries. Latvia has, for the past 10 years, intensified its political dialogue and economic contacts with eastern ENP countries. The Eastern Partnership summit in Riga in the spring of 2015 is envisioned as the highlight of Latvia's upcoming EU Council Presidency.

Despite the commitment to facilitate progressive change in the EU's eastern neighbourhood, Latvia's approach to this group of six countries – Belarus, Moldova, Ukraine, Georgia, Armenia, and Azerbaijan – has not been idealistic. Latvia is fully aware that the EaP countries are a diverse group and that their domestic political dynamics are complex. Thus, Latvia has chosen to support the efforts of Georgia, Ukraine, and Moldova to develop closer ties with the EU. In relations with Azerbaijan, however, Latvia's economic interests have been more prominent. With respect to Belarus, Latvia has vacillated between a democratization agenda and its economic interests. It should be noted that Belarus is the only EaP country that Latvia shares a common border with. Thus, the lack of progress in terms of democracy and the weakness of political opposition in Belarus have been more salient for Latvia than in the case of other EaP countries because Belarus is a neighbour. After the initial attempts to engage in strengthening the democratic opposition in Belarus, Latvia has settled in favour of a more pragmatic policy, not least because of economic interests. For Latvia, Belarus is a far more important economic partner than any other EaP country; therefore Latvia has chosen to prioritize its economic interests over the commitment to promote democratic values. There is, however, little doubt that Latvia will be among the first countries to sup-

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6 Rudzīte, K. The Intersecting of Latvian and Russian Interests in South Caucasus. In *Latvia-Russia-X*. Ozoliņa, Ž. (ed.). Zinātne, 2008.

port the democratization of Belarus when such an opportunity presents itself. The initiative to begin democratic reforms should come from Belarus though.

Latvia is also aware that most EaP countries are highly vulnerable to Russia's pressure. Late in 2013 vulnerabilities were brought to the fore when Russia used pressure against Armenia and Ukraine to prevent them from signing the Deep and Comprehensive Free Trade Agreement (DCFTA) with the EU. Russia's pressure worked in the case of Armenia, but in the case of Ukraine it split the country and plunged it into political and, increasingly, military turmoil.<sup>7</sup> Although currently most attention is being paid to the crisis in Ukraine, Moldova is also vulnerable because of its break-away province Transnistria. Gagauzia may also harbour separatist sentiments. Besides that, Moldova is arguably the poorest country in Europe with a massive outward migration. Thus, the part of the region that Latvia cares about the most has been thrown into turmoil by the latest events in Ukraine, while the other part has little interest in an enhanced cooperation with the EU. In short, the future of the EaP is in doubt. This is bad news for Latvia's upcoming EU Council Presidency because in the worst case scenario there may not be much left of the EaP by early 2015. In the best case scenario, however, Latvia will monitor the progress in the implementation of the DCFTAs signed by Moldova and Georgia in 2014 and will try to accommodate the limited European aspirations of the other EaP countries. Latvia's pragmatic view of the EaP countries suggests that it is likely to do its best to achieve at least modest progress in terms of pulling the EaP countries closer to the EU.

### 3. THE DEVELOPMENT COOPERATION POLICY

The origins of Latvia's development cooperation policy date back to 2004 when Latvia joined the EU. Before then, Latvia had contributed to development aid through its annual contributions to the United Nations and *ad hoc* assistance to countries that have suffered from natural disasters. However, Latvia did not provide development aid on a bilateral basis. The relative absence of a development cooperation element in Latvia's foreign policy prior to the accession to the EU can be explained by two factors. First, Latvia did not have sovereign government structures during the Soviet era and, accordingly, could not have autonomous foreign policy. This factor explains Latvia's lack of experience in terms of providing assistance to developing countries. Second, after regaining independence in 1991, Latvia struggled economically and, thus, perceived itself as a recipient of aid rather than a country that is able to provide assistance to less developed countries. This perception is still a major factor because it is one of the poorest EU member states. Latvia was also hit harder by the economic crisis in 2009 than any other EU member state (including its Baltic neighbours Lithuania and Estonia). The Human Development Index (HDI) rankings, however, paint a different picture showing that Latvia is among the group of most developed countries in the world.

7 For further analysis of the Baltic states' approaches to Eastern Partnership countries see: Jurkynas, M., Rostoks, T. Should the Baltic States Initiate the Reform of the EU's Eastern Partnership Policy? In *Political State of the Region Report 2014*. Henningsen, N., Etzold, T., Opitz, C. (eds.). Baltic Development Forum, 2014. pp. 16-21.

According to the HDI, Latvia ranked number 50 in 2003<sup>8</sup> before the accession to the EU and number 44 in 2012.<sup>9</sup> Latvia's favourable position, when compared to the majority of countries, however, remains largely undetected by the general public because Latvia is situated in the vicinity of some of the most developed countries in the world such as Sweden, Finland, Norway, Denmark, and Germany. Thus, Latvia is usually compared with these countries, not with those whose HDI is much lower than Latvia's.

Since 2004, the development cooperation policy has become a significant part of Latvia's foreign policy. The bulk (more than 90%) of Latvia's development aid is multilateral (contributions to international organizations, but mostly to the EU). Much lesser financial means are devoted to bilateral aid, but it has been more contentious due to its supposedly voluntary character. The total amount of Latvia's development assistance (both multilateral and bilateral) rose from 6.8 million euro in 2004 to 18 million euro in 2013. Initially, there were three major choices that Latvia had to make regarding the bilateral development cooperation. First, Latvia had to decide which countries it was going to help. It was decided that Latvia would choose the eastern neighbours of the EU as aid recipients. Although initially Balkan countries were also mentioned among the possible aid recipients, it quickly became clear that Moldova, Georgia, and to a lesser extent Ukraine would receive the bulk of Latvia's development aid. At a later stage, Afghanistan was added to the list because of the participation of Latvian troops in NATO's ISAF mission. A more recent development has been development assistance to Central Asian countries. There is a pattern that Latvia's development aid has been synchronized with its foreign policy priorities.

Second, Latvia had to decide how much bilateral development assistance (in financial terms) it was willing to provide. Successive Latvian governments have opted to allocate as little as possible to bilateral development aid. The amount of bilateral development aid gradually increased from 140 000 euro in 2005 to 825 000 euro in 2008. The economic crisis brought Latvia's development cooperation to a standstill, and bilateral development amounted to as little as 383 € in 2011. Aid financing has somewhat recovered since then, but the recovery has been painfully slow. As a result, Latvia's development aid allocation for 2014 stands at 130 000 €, which is far below the level reached in 2008 (and even further below Latvia's international commitments).<sup>10</sup>

Third, Latvia had to decide what type of assistance it was willing to provide to recipient countries. In general, development cooperation projects range from large scale infrastructure undertakings to small scale consultancy projects. Due to its small financial contribution, Latvia could not afford to implement major infrastructure projects in recipient countries. Thus, Latvia has decided to focus on passing its reform experience to countries that are still in the process of reforming. This choice was also convenient from the perspective of recipient countries, most of which wanted to develop closer relations with the EU. Thus,

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8 Human Development Report 2004. UNDP, 2004.

9 Human Development Report 2013. UNDP, 2013.

10 Data provided by the Latvian Ministry of Foreign Affairs.

Latvia's government reform experience was exactly what was needed by the recipient countries such as Moldova, Georgia, and Ukraine.

In general, Latvia's development cooperation policy has been only partially successful. On the one hand, Latvia's possession of recent reform and EU integration experience has been an advantage. On the other hand, insufficient and unstable development cooperation funding has made it difficult to carry out this policy consistently. Thus, it is ironic that Latvia has been allocated the post of development commissioner – Mr. Andris Piebalgs – in the European Commission between 2009 and 2014. There are several other influences that have hampered Latvia's development cooperation efforts. First, there is lack of political interest in this policy. Although the idea of using Latvia's reform experience as a tool to facilitate relations with EaP countries seems attractive to political decision-makers, the idea that Latvia should allocate considerable funding in order to assist the development of other countries has not taken root yet. Second, there is lack of public support for Latvia's development cooperation efforts. The public accepts the idea that developed countries should provide aid to developing countries but is split on the issue whether Latvia itself should help other countries develop. There is some readiness to provide development aid to former Soviet republics, but this moderate willingness to help others does not extend to countries in Africa, Asia, and Latin America.<sup>11</sup>

#### 4. RELATIONS WITH RUSSIA

Relations between Latvia and Russia have had ups and downs over the past 20 years, and there is little doubt that Russia is a major influence on the foreign policy calculations of Latvia's decision-makers. In fact, Russia's presence was one of the main motivations for Latvia to join the EU and NATO while Russia was relatively weak and could not prevent that. One general observation about the importance of Russia for Latvia is that it extends well beyond foreign policy into domestic realm. Latvia has a sizeable community of Russians and Russian-speakers therefore the dynamics of relations with Russia inevitably have repercussions in Latvian domestic politics. Also, Russia's presence is a source of concern both when relations are good and when relations are bad. Improving relations with Russia have a positive effect on economic relations. This, however, provokes the concern that Russia's economic presence in Latvia becomes too sizeable and can be used by Russia to manipulate Latvia when relations deteriorate at a later stage. Also, hard security concerns come to the surface.

Latvian-Russian relations were largely frozen in the pre-accession period when Russia was adamantly opposed to Latvia's NATO membership (the integration into the EU was seen as a somewhat lesser problem by Russia). Relations improved after 2004, but were then periodically derailed in 2008 (the Russian-Georgian war) and in 2014 (the Ukrainian crisis). Over the past 10 years since Latvia's accession to the EU, the two aspects of Latvian-Russian relations – political and economic – have evolved in different ways. On the one hand, trade re-

11 Rostoks, T. Cilvēkdrošība Latvijas attīstības sadarbības: izpratne ir, atbalsta nav [Human security in Latvia's development cooperation policy: understanding, but no support]. In *Cilvēkdrošība Latvijā un pasaulē: no idejas līdz praksei*. Ozoliņa, Z. (ed.). Zinātne, 2013.

lations between Latvia and Russia have grown considerably. Also, the border agreement was signed in 2007. On the other hand, there have been constant tensions over the Russian minority in Latvia and the interpretation of history.<sup>12</sup> Indeed, the history of the 20<sup>th</sup> century was used and abused by both Russian and Latvian officials in order to accuse each other of 'whitewashing' the past (e.g. the Stalinist repressions and the fact of Latvia's occupation in 1940) or 'revising' history (public events with the aim to honour Latvian Waffen SS Legion soldiers seen as 'glorifying' Nazism).<sup>13</sup> Russia's conflicts with Georgia and Ukraine have provoked security concerns in Latvia, and these have been key reasons why Latvia has been a staunch supporter of NATO solidarity and the continued EU integration. Latvia's dependence on Russia's energy (mainly gas) supplies has also been a matter of concern.

Although Russia is a cause of concern for Latvia at all times, the positive aspects of post-2004 relations with Russia are manifold. On the economic front, during the last 10 years Latvian exports to Russia have grown from 8% to 10%.<sup>14</sup> The inflow of foreign direct investment from Russia has also increased considerably since 2004. Concerning political issues, during period of 2006 up to 2010 a number of Latvian-Russian agreements were signed: the economic cooperation (2006), the transport of nuclear fuel (2007), the border treaty (2007), the status of cemeteries in both countries (2008), the operation of customs points at the border (2008), readmissions (2009), and the cooperation on social security (2010). The culmination of this upward trend was the historical visit of Latvian President Mr. Valdis Zatlers to Moscow in 2010, which also resulted in further practical achievements such as signing the package of 9 treaties. Most importantly, the issues related to double taxation were solved.<sup>15</sup>

Nevertheless, post-2004 relations have been also marked with serious concerns about Russia's increasing influence in Latvia. Russian media outlets, especially Russian TV channels are widely available for consumption in Latvia. The crisis in Ukraine has vividly displayed differences in information selection and presentation between Russian and Western media. Seen in this light, a key concern of Latvian decision-makers is the existing and potential impact that Russian media may have on the worldview of Russians and Russian-speaking parts of the Latvian society. According to a recent public opinion survey conducted in the early spring of 2014, nearly 43% of Latvia's population mostly watches Russian TV channels. Moreover, the respondents' trust in Russian state-controlled channels only slightly lags behind Latvian and Western TV channels.<sup>16</sup>

It seems that the continuous exposure to Russia's media outlets has had an impact on parts of Latvia's society. This realization has become a matter of concern for Latvian deci-

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12 Muižnieks, N. *Latvian-Russian Relations: Dynamics Since Latvia's Accession to the EU and NATO*. University of Latvia, 2011. p.10.

13 Muižnieks, N. *History, Memory and Latvian Foreign Policy In The Geopolitics of History in Latvian-Russian Relations*. Muižnieks, N. (ed.). Academic Press of University of Latvia, 2011. p.7.

14 It should be noted though that in terms of absolute volume of Latvia's trade with Russia and EU countries has grown considerably, especially after the economic crisis in 2008-2010. Ziņojums par Latvijas tautsaimniecības attīstību [Report on the state of Latvian economy]. Latvian Ministry of Economics, 2013. pp. 24-26. Retrieved from: [http://www.em.gov.lv/images/modules/items/tsdep/zin\\_2013\\_1/2013\\_jun.pdf](http://www.em.gov.lv/images/modules/items/tsdep/zin_2013_1/2013_jun.pdf) (Last accessed on 13.06.2014.)

15 Muižnieks, N. *Latvian-Russian Relations: Dynamics Since Latvia's Accession to the EU and NATO*. University of Latvia, 2011. p.25.

16 SKDS survey data, 2014.

sion-makers because Russian-speakers' views on the interpretations of history, Latvian-Russian relations, and current issues in international relations are considerably different from the views held by Latvians. According to public opinion surveys, 49% of Russians expressed their support for Russia's actions against Georgia in 2008.<sup>17</sup> Also, 43% of Russians found Russia's annexation of Crimea in the spring of 2014 justified.<sup>18</sup> In the light of the Ukrainian crisis, in the spring of 2014 Latvian authorities suspended the retranslation of the Russian 'Rossija RTR' TV channel in Latvia for three months. However, despite certain minor measures taken in order to taper Russia's influence on Latvian society, the neutralisation of Russia's adverse foreign influence on the Russian-speaking minority is likely to remain one of the biggest challenges for the Latvian authorities. It is also likely to become a major stumbling block in Latvian-Russian relations.

## 5. THE BALTIC COOPERATION

Due to their similar size and shared history, it is frequently supposed that the three Baltic States have much in common. But there is also a joke, that the only thing that Estonians and Lithuanians have in common is Latvians.<sup>19</sup> Since the mid-1990s, the three Baltic States sought integration into the EU and NATO, but apart from that there have been many differences, many of which have surfaced after 2004. Latvia has been the staunchest supporter of the Baltic unity, while Estonia has identified itself as 'Nordic'. Lithuania, being the biggest of the Baltic States and due to its common history with Poland, appears to have extensive linkages to Central Europe.<sup>20</sup> In the past 10 years since the accession to the EU, the Baltic cooperation has suffered significant setbacks, but it also seems that their trilateral cooperation is built upon a solid foundation as proven by the frequent official and unofficial meetings of high-ranking Baltic States' government officials.<sup>21</sup>

The first symbolic challenge to the Baltic unity after the accession to the EU became apparent in early 2005. Despite the identical interpretation of the consequences of World War II and the availability of the institutional framework for cooperation, none of the three presidents of the Baltic States – Vaira Vīķe-Freiberga, Arnold Rüütel, and Valdas Adamkus – managed to express a unified stance of the three Baltic States towards Russia's invitation to attend the 60<sup>th</sup> anniversary of the end of World War II in Moscow on May 9, 2005. The Latvian and Lithuanian presidents decided to attend the event (though led by two different logics), but the Estonian president chose not to.

17 SKDS survey data, 2008.

18 SKDS survey data, 2014.

19 Latvia is geographically situated between Estonia in the North and Lithuania in the South.

20 Galbreath, D.J. A Baltic Star Catches Western Eyes: The Latvian Guide to "Making Friends and Influencing People". *Diplomaatia* 39, 2006. Retrieved from: <http://www.diplomaatia.ee/en/article/a-baltic-star-catches-western-eyes-the-latvian-guide-to-making-friends-and-influencing-people/> (Last accessed on 11.06.2014.)

21 There have also been attempts to merge the trilateral Baltic cooperation framework with the Nordic cooperation framework. Although merging both cooperation frameworks has not been possible, there is extensive cooperation between Nordic and Baltic countries in various spheres and frameworks.

Another contentious area of cooperation has been the issue of energy. On the one hand, various external factors compel the Baltic States to cooperate. Lithuania, Latvia, and Estonia are an 'energy island' within the EU which means that their energy infrastructure is heavily linked to Russia and lacks connections to other EU member states. They are bound by the EU common energy policy, relevant EU laws and directives.<sup>22</sup> The EU has created financial incentives for cooperation, and there are various agreements and energy projects where the three Baltic States are involved. Under the Baltic Energy Market Interconnection Plan (BEMIP), the implementation of various electricity grid projects steadily moves forward.

The Baltic states have common energy security concerns, but they frequently seek individual rather than common solutions. The most vivid examples are two regional projects that are currently deadlocked. The first example is the nuclear power plant in Visaginas NPP. Clearly the Visaginas NPP is a high priority project for Lithuania, but not for Latvia and Estonia due to high investment costs, questionable cost-effectiveness, and the lowered competitiveness that is likely to be affected by Russian and Belarussian plans to build nuclear power plants in Kaliningrad and Belarus. The second example is the regional LNG terminal project, which is supported by the EU. However, the Baltic States could not reach an agreement on where it should be situated. As a result, Lithuania has chosen to build its own LNG in Klaipeda (not least because its gas imports from Russia increased by 60% after the Ignalina NPP was closed by the end of 2009), and it is not clear where this leaves Estonia and Latvia with regard to efforts to diversify their natural gas supplies. This is another sign that the trilateral cooperation in energy security struggles and there is no unified approach towards the common problems in this field.<sup>23</sup>

Nevertheless, positive examples of Baltic cooperation exist, and there are many of them. The Baltic states are close economic partners due to their trade and investment interdependence. Also, the Baltic states have an extensive military cooperation. Much has been done in order to meet NATO pre-accession conditions (e.g. interoperability and NATO-compatibility). Various institutional mechanisms for cooperation have been created both before and after the accession to NATO: the Baltic Military Committee (BMC), a joint Baltic Air Surveillance System (BALTNET), and the Baltic Naval Squadron (BALTRON). With external assistance the Baltic states have created a joint military education institution, the Baltic Defence College (BALTDEFCOL) in Tartu, Estonia.

The Baltic states share a common perception of threats to their security. Russia's military engagement in Georgia (2008) and, most notably, the annexation of Crimea have led to increased activity in the field of collective security. For example, recent years have witnessed an increase in joint military exercises with the three Baltic States testing the interoperability of their forces together with troops from other NATO member states. Also, on 26 May 2014 in Tallinn, Latvian, Estonian, and Lithuanian defence ministers agreed that the Baltic Battalion will participate in the NATO Response Force as of 2016 and announced the development of cooperation in planning and command operations.<sup>24</sup> There is also an idea to estab-

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22 Dudzinska, K. Energy Policy in the Baltic States—United or Separate? PISM Policy Paper 37, 2012. Retrieved from: [https://www.pism.pl/files/?id\\_plik=11583](https://www.pism.pl/files/?id_plik=11583) (Last accessed on 11.06.2014.)

23 Dudzinska, K. Energy Policy in the Baltic States—United or Separate? PISM Policy Paper 37, 2012. Retrieved from: [https://www.pism.pl/files/?id\\_plik=11583](https://www.pism.pl/files/?id_plik=11583) (Last accessed on 11.06.2014.)

24 Dudzinska, K. Energy Policy in the Baltic States—United or Separate? PISM Policy Paper 37, 2012. Retrieved from: [https://www.pism.pl/files/?id\\_plik=11583](https://www.pism.pl/files/?id_plik=11583) (Last accessed on 11.06.2014.)

lish a common Baltic Russian media outlet with an aim to counter disinformation spread by the Russian media and popularise Western views in Russian language for the Russian-speaking population of the three Baltic states.<sup>25</sup> This idea went even further when Baltic media leaders, together with Finland, asked the European Commission in a joint letter to consider establishing the 'Voice of Europe', a Russian-language TV channel that would cover all of Europe, including such countries as Germany, Finland, and Great Britain.<sup>26</sup> All in all, although the Baltic cooperation has suffered a number of setbacks over the past 10 years, there are signs that it has been revitalised by the growing security concerns of all three Baltic states.

## 6. THE DIASPORA POLICY

The EU membership has brought Latvia a number of benefits, but it has also had a number of problematic aspects. Arguably, the massive outward migration since 2004 to the so-called 'old' member states has been the most prominent negative concern. Latvia's demographic situation deteriorated during the 1990s when the fertility rate steeply declined, and this problem was exacerbated by the freedom of movement of labour within the EU after 2004. The main destinations for Latvians were Great Britain and Ireland. The economic crisis in 2008-2010 produced another wave of emigration. Since the beginning of the 21<sup>st</sup> century, successive waves of emigration have swept away approximately 9 % of Latvia's population which translates into roughly 170 000 – 200 000 individuals.<sup>27</sup> Latvian authorities had to adapt to this new reality and devise a feasible diaspora policy, which is still very much work in progress. The diaspora policy has become a part of Latvian foreign policy because the Ministry of Foreign Affairs is the only government institution that has permanent diplomatic representations in most countries that host significant numbers of Latvians. Thus, it plays a special role in the formulation and implementation of this policy.

The Latvian diaspora is diverse and has emerged in different historical contexts.<sup>28</sup> The so called 'old diaspora' settled in Northern America and Western Europe in the aftermath of WWII. It was well-organised and politically mobilised. The 'old diaspora' lobbied for the non-recognition of the Soviet occupation in various Western governments and served as a vital platform for the restoration of Latvian independence in 1991. After the collapse of the Soviet Union, though small in number, 'returnees' played a prominent role in westernizing Latvia, took active roles in national legislature, assumed a number of ministerial posts, represented Latvia abroad in various international organisations, headed a number of state institutions and have been prominent in various NGO's, academia and media circles, as well as in the economy.<sup>29</sup> The 'new diaspora' is in many aspects different because it was driven

25 The Baltic Times. Baltics continue discussions to counter Russian propaganda TV. 21.04.2014. Retrieved from: [http://www.baltictimes.com/news/articles/34743/#.U5t7GV76\\_M6](http://www.baltictimes.com/news/articles/34743/#.U5t7GV76_M6) (Last accessed on 12.06.2014.)

26 Estonian Public Broadcasting (News.err.ee) Media Figures Petition EC for Creation of Unbiased Russian-Language Outlet in Europe. 11.04.2014. Retrieved from: <http://news.err.ee/v/society/3e80a002-9d5d-4f31-af25-d0d3651b3bca> (Last accessed on 11.06.2014.)

27 Hazans, M. Emigration From Latvia: Recent Trends and Economic Impact. In *Coping with Emigration in Baltic and Eastern European Countries*. OECD, 2013. pp. 65-102.

28 Muižnieks, N. Responsibility in Latvia's Relations with the Diaspora. In *Latvia. Human Development Report 2008/2009: Accountability and Responsibility*. Rozenvalds, J., Ijabs, I., (eds.). ASPRI, 2010. p. 132.

29 Ibid., pp. 132-133.

by economic motives (e.g. the lack of economic opportunities in Latvia). It was motivated by the free movement of labour within EU, reduced migration costs, and established social networks (e.g. friends and relatives abroad). What makes maintaining relationships with the 'new diaspora' problematic is that it is alienated from the Latvian authorities. The 'new diaspora' distrust the government and are disappointed in Latvia.<sup>30</sup>

Although the Latvian government has become more active in formulating its diaspora policy in recent years, the origins of this policy date back to 2004 when the 'Latvian Diaspora Assistance Programme 2004-2009' was first created. However, this programme was never implemented both because it was not among the top government priorities and later because of the economic crisis. Since then, the diaspora policy has been addressed in a number of government documents. The diaspora issue was reflected in the 'Cabinet declaration' of Prime Minister Valdis Dombrovskis' government (2011) and in the 'National identity, civic society and integration policy guidelines for 2012-2018' (2011). Latvia's National Development Plan (2014-2020) also posits the diaspora in the list of topical issues and calls for establishing a communication platform with the diaspora.<sup>31</sup> The most recently adopted Re-emigration Plan (2013) outlines actions that government institutions should take in order to facilitate the re-emigration of Latvians currently living abroad. The economic crisis was a turning point in reconsidering the diaspora policy in a more strategic fashion. Nowadays the diaspora policy, at least rhetorically, is deemed essential and directly connected with preserving the Latvian identity, promoting a more active civic participation, improving Latvian demography, facilitating the re-emigration, and turning the 'brain drain' effect into 'brain circulation'.

The implementation of the Re-emigration Plan requires a concerted action of Latvian authorities. For the time being, however, facilitating a mass re-emigration is not possible. Thus, the Ministry of Foreign Affairs is likely to remain the key institution for maintaining relations with the diaspora. Its functions include organizing opportunities for the Latvian diaspora to cast their vote in national elections and managing day-to-day relations with the diaspora. Moreover, there is little trust in the Latvian government among members of the diaspora; therefore, the Ministry of Foreign Affairs should perform functions that are usually seen as public diplomacy. The difference, however, is that in this context public diplomacy is not only about managing relations with citizens of a different country, but instead with disillusioned Latvian citizens living abroad.

## 7. CONCLUSION

Latvia will hold its first European Council Presidency in the first half of 2015. This is likely to become a milestone in Latvia's EU membership and will probably mark the end of Latvia's self-perception as being a 'new member state'. The elements discussed in this article provide ample evidence that the first 10 years of EU membership were largely about adaptation to the new situation. In the case of the ENP (which later partially morphed into the

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30 Ibid., p. 134.

31 Lappuķe, R., Special ambassador of Ministry of Foreign Affairs. Dialogs ar latviešiem ārzemēs: Diasporas politika Latvijā (Dialogue with Latvians living abroad: Latvia's diaspora policy). Presentation at the conference on demography at the University of Latvia, 11-12.02.2014.

EaP), Latvia had to find out what could be achieved with the help of this policy and how much support it could garner from other member states. Accepting the development cooperation policy for Latvia was part of the EU socialization process. Becoming a donor country has not been easy, and there are still wide disparities in Latvia in terms of the extent to which various actors involved in the foreign policy decision-making process have internalized the notion that being a 'good international citizen' also means providing assistance to developing countries. The Ministry of Foreign Affairs and non-governmental organizations have been the first to accept and internalize this norm while political parties and the general public have found it hard to accept it. The need to develop a coherent and viable diaspora policy has been another important consequence of Latvia's EU membership. Probably, this has been the toughest lesson of all because emigration and the demographic problems that it has caused touch upon the core aspect of sovereign statehood. Thus, it is hardly surprising that demography has been elevated to the status of a national security issue.

Perhaps the element of Latvian foreign policy least affected by the EU membership was relations with Russia. There is little doubt that Latvia's EU membership created important preconditions for the normalization of Latvian-Russian relations. Moreover, the EU has provided a number of tools that have made it possible to taper Russia's influence over Latvia (for example, energy security and transport infrastructure). However, the security element, which undoubtedly exists in Latvia's relations with Russia, has prevented the EU-ization of these relations. As a result, Latvia mostly sees its relations with Russia in terms of hard security and its NATO membership. However, in addition to military security, Latvia sees a number of soft security elements in its relations with Russia. Thus, it remains to be seen whether the EU membership can further address at least some of these concerns.

Yuri Krivorotko

## PUBLIC PROCUREMENT SYSTEM IN BELARUS: ADMINISTRATIVE ASPECT

*The article presented here is the country research and has an analytical character. In it the system of public procurement in Belarus is concerned. Stages of public procurement system's formation and its legislative base, development of electronization of purchases are considered. The public procurement system at the sub-national level is analyzed and weak points are emphasized. Corruption aspects and ways of their minimization in public procurement activity are showed. Debatable issues and ways of procurement activity improvement in Belarus are presented.*

*The methodology of research is based on the analysis of a series of data on public procurement in the Republic of Belarus, budgetary expenditures on public procurements in the local governments of the Minskaya oblast<sup>1</sup>, on e-auctions procurement at the Universal Commodity Exchange. Statistical data for analysis obtained from official sources, such as the State Statistics Committees, Ministry of Finance, Open Joint Stock Company (OJSC) the Belarusian Universal Commodity Exchange and on-line databases of analytical centers working in this field, etc.*

### 1. INTRODUCTION

Public procurement is a big and an important subject in the Belarusian administration system both at central government and sub-national levels. An importance of this subject in the present conditions is that public procurement turns into one of the instruments of providing public services. It is especially experienced in the sub-national governments where the local ones are closer to citizens and provide their current ability to life. By means of public procurement being necessary for local community the local governments performs their transformation into public products and services. In this connection it is important to know the administrative aspects of public procurement, namely, what are the optimum ways of procurement and how they are connected with expenditure assignment of local governments, what public services are connected with concrete ways of procurement, how to form plans of procurement, how to do justifications of procurement, how to exercise financial and public control, supervision and audit. Not less important aspects are the corruption areas

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<sup>1</sup> Minskaya oblast is the most developed region in Belarus.

and their factors in public procurement activity, the increase of public procurement transparency and accountability for civil society, mass media, local community, citizens. All these issues are very significant for the creation of a public procurement system in Belarus. Since the scope of public procurements is extremely wide and many-sided, in this paper some aspects of procurement activity are touched on only. They are the stages of public procurement formation in Belarus, the characteristics of its common and special features, the analysis of public procurements in the sub-national governments, the investigation of corruption points in public procurement, ways to increase transparency and accountability and finally, debatable issues of procurement activity in Belarus.

## 2. GENERAL CHARACTERISTICS OF PUBLIC PROCUREMENT SYSTEM IN BELARUS

An evolution of public procurement system in Belarus in direction of care from directive and uncontested placement of the state orders was performed. At the same time, this care assumed the development and improvement of the public procurement mechanism.

The basis of current legislation on public procurements is made by the Civil Code of the Republic of Belarus<sup>2</sup>, (article 495) which contains concept of the state needs “as a need of the Republic of Belarus defined in accordance with the established procedure or its administrative and territorial units and provided at the expenditures of budgetary funds and non-budgetary financial sources“.

Now in Belarus the main form of the state requirement orders’ satisfaction for delivery of industrial goods, consumer ones and services are acting. The formation of market structure of public procurement began practically at the same time with the transition of Belarus to market economy. The contractual relations with the use of stimulation forms began to come to change the centralized logistics [*tsentralizovannoe materialno–tehicheskoe snabzhenie*] and obligatory public procurement. In recent years the public procurement volume in the expenditure structure of the Belarusian consolidated budget began to reach more than a half and their share in GDP more than 15% that corresponds to that of the developed European countries. It points to an essential role and a place of public procurement in the Belarusian economy. They turned not only into the instrument of macroeconomic regulation, but also into one of the ways for providing public services.

The creation of public procurement regulations dates back to 1993 and includes 5 stages:  
– The first stage began with adoption of Law „On deliveries of goods for the state needs” of November 24, 1993 No. 2588-XII<sup>3</sup>. This Law establishes the general principles of formation, placement and performance on a contract (contractual) basis of orders of

2 Grazhdanski Kodeks Respubliki Belarus [Civil Coode of the Republic of Belarus] ot 7 Dekabrya 1998 goda, 2008, No 218-3, 2008. [online]. Available at< [http://pravo.by/world\\_of\\_law/text.asp?RN=hk9800218](http://pravo.by/world_of_law/text.asp?RN=hk9800218)

3 Zakon Respubliki Belarus . “O postavkah tovarov dlay gosudarstvennyh nuzhd” [The Law about deliveries of goods for the state needs], ot 24 Noyabrya 1993 g. No 2588-XII],1993. [online]. Available at< <http://laws.news-by.org/documents/laws/law1206.htm>

goods for public needs for all enterprises, organizations, firms, companies, irrespective of ownership's form.

- The second stage is connected with the introduction of competitive auction into public procurement procedures: a concept in 1996. At this stage the Ministry of Economic and the Ministry of Finance introduced the regulation about the procedure of tenders for purchases of goods, works and services. In it the ways of public procurement are formulated: "open method", "limited method", "simplified method", "negotiations" and "direct purchases".
- On the third stage which began in 2006 public procurement concept was introduced and the uniform order of purchases was defined, too. The order of supplier's choice at implementation of public procurement on the Belarus territory was defined. A uniform order of purchase of goods and services by means of budgetary funds, in whole or partly, has been introduced as well.
- The fourth stage introduced changes into regulations of public procurement. Since 2009 the order of supplier's choice has been specified at implementation of public procurement on the Belarus territory. The order of appeal of supplier's choice and bases for recognition of the auction as invalid was defined. Changes in concept of public procurement were introduced, as well. For example, procurement by budgetary organizations<sup>4</sup> which is carried out for their own incomes received from business activity<sup>5</sup> is excluded from the concept of public procurement. These types of procurement began to be classified as procurement for their own incomes, separately from public procurement.
- The fifth stage began on January 1, 2013 and is connected with the adoption of the Law of the Republic of Belarus "On public procurement".<sup>6</sup> In it the main terms: a competence of government bodies in the field of public procurement, customers and organizers of procurement procedures; conditions of their application; appeal system were defined. The procedure of public procurement implementation with using electronic auction was also introduced by the Law.

Currently in Belarus procurement's practice is characterized by the two models in which centralized and decentralized ones are coexisting. The centralized model provides the creation of a peculiar purchasing center where all demands for purchases from various enterprises and organizations are collected. The centralized model provides low prices due to wholesale purchases but is less mobile and does not always consider all nuances in demands for the acquisition of necessary goods and services. The decentralized model provides an independent implementation of all purchasing processes by the consumer's organization. Simultaneously, the service coordinating activity or supporting purchases of all organizations can function. The decentralized model is very flexible, but it is more expensive in comparison with the centralized one. However, from between the two models of public procure-

4 Organizations funded by the central and local budgets. For example, health care centers, educational organizations, specialized schools, universities.

5 For example, business activity of health care centers, educational organizations, specialized schools, universities.

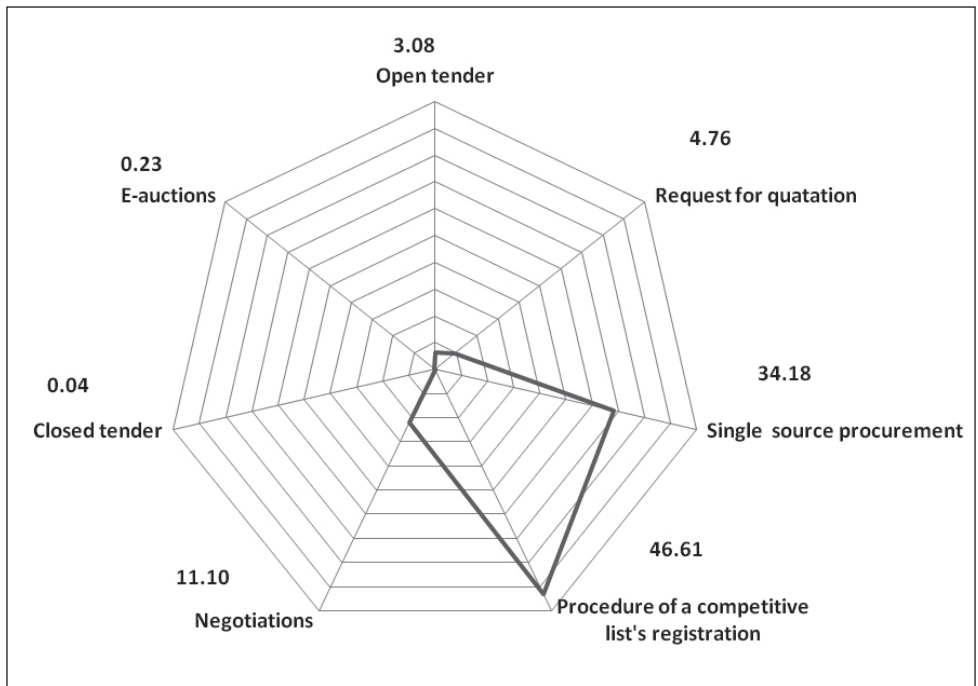
6 Zakon Respubliki Belarus "O gosudarstvennyh zakupkah tovarov (rabot, uslug)" [The Law about public procurement of goods (works, services)], ot 13 iulya 2012 goda, No419-3, 2012) [online]. Available at < <http://www.pravo.by/main.aspx?guid=3871&p0=H11200419&p1=2>

ment the centralized one dominates. The general dynamics of procurement activity and its structure in Belarus are illustrated by table 1.

As table 1 shows, 242,584 procedures of public procurement of goods (works, services) were performed in 2012. It is 23,076 procedures or 10.5% more in comparison with 2011. However, despite the growth of procedures, the structure developed earlier did not essentially change. In 2012, from the total number of procurement procedures 9,327 or 3.8% from all procedures did not lead to the contract signings. In 2011, 9,491 procurement procedures or 4.3% from all procedures did not take place. Characterizing procedures of public procurement in 2012, it should be noted that 452,150 participants took part, from which 448,802 or 99.26% are domestic participants and 3,348 or 0.74% are foreign ones. From the total number of foreign participants 31.5% were from the Russian Federation.

Our research of the procedure's types in structure of procurement activity for 2008-2012 showed that the dominant types of procurements were: a competitive list's registration - 46.7%; single source procurement – 34.28%; price negotiations – 11.13%. These types are showed in figure1.

**Figure 1.** • Structure of public procurement by the types of procurement which have been performed in 2008-2012 (on the average)

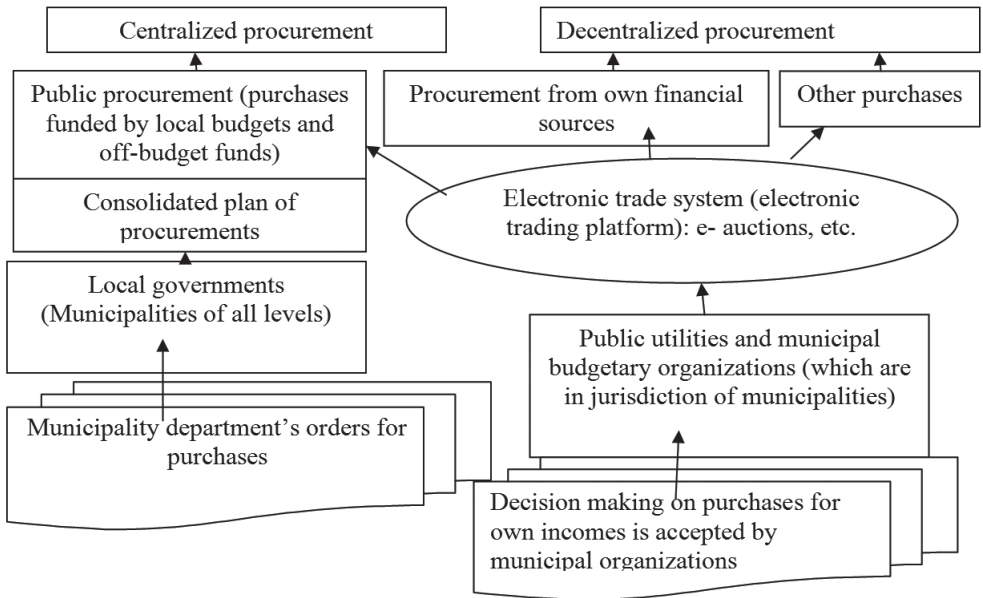


SOURCE: OWN AUTHOR'S CALCULATIONS ON THE BASE OF MINISTRY OF TRADE OF THE REPUBLIC OF BELARUS DATA

In 2012 as a result of procurement's procedures 244,887 contracts on a sum of 54.1 trillion Belarusian rubles were signed, including the competitive types of procurement's proce-

dures – 160,642 or 66% of total contracts are signed. A deeper analysis of the procurement activity is displayed by table 2.

**Figure 2.** • *Scheme of procurement activity at the sub – national level*



SOURCE: FIGURE DEVELOPED ON A BASE OF OWN AUTHOR'S RESEARCH

An increase of the total number of procurement procedures provided in 2012 led to a 12.4% increase of the amount of contracts signed, in comparison with 2011. The growth of the total number of procurement procedures provided in 2012 led to a 12.4% increase of the number of contracts signed in comparison with 2011. At the same time the total contract costs signed have increased in 3.6 times. The number of signed contracts on the centralized purchases made up 12,474 or 5.1% of the total number of the signed contracts performed in January-December, 2012 (for the similar period of 2011 11,282 or 5.2%). Thus the share of total procurement contracts signed by the results of the centralized procurement made up 9.4% from all signed contracts (18% in the similar period of 2011).

It should be noted, however, that in 2013 new forms of public procurement were adopted: open competitive tenders; closed competitive tenders; on-line auctions (e-auction); request for quotation procedures; single source procurement procedures; exchange bidding. So, the procedure of a competitive list's registration was abolished and exchange bidding one was entered<sup>7</sup>.

<sup>7</sup> In capital construction sphere a negotiation procedure has saved only.

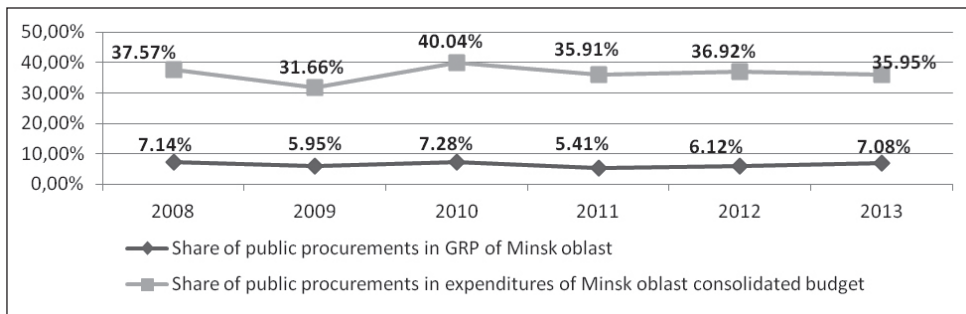
As a whole, the system of legislative regulation of the public procurement existing in Belarus is very difficult, complicated and inconsistent. A lack of this sphere is that public procurement is considered separately as an independent subject, without a context of administrative tasks: levels of governments, expenditure functions of the sub-national governments, assignment of these functions, responsibilities of local authorities and without problems of regional and local governments.

### 3. AN EVOLUTION OF PUBLIC PROCUREMENT ELECTRONIZATION

The electronization of the procurement in Belarus represents a modern synonym of informatisation considering the introduction of various types of electronic devices and the related new ways of actions in procurement process. The electronization of procurement began to develop in Belarus in 2011 and also tends to continuous growth. Especially actively this process began to develop in 2013.

The electronization of procurement in Belarus gained development in the form of electronic auctions (e-auctions). E-auctions on exchange electronic trading platform at the implementation of public procurement and purchases from own financial sources of organizations are performed. It represents a new procedure of selecting a supplier (contractor, performer) and is legislatively planned to define electronic auction as the main way of public procurement implementation of goods (works, services). An evolution of this process is characterized by table 3.

**Figure 3.** • Dynamics of expenditures on public procurements in Minskaya oblast’s consolidated budget and in GRP for 2007-2013 (shares in per cent).



SOURCE: OWN AUTHOR’S CALCULATIONS ON THE BASE OF MINSKAYA OBLAST’S FINANCIAL DEPARTMENT REPORTS.

Table 3 above illustrates a certain experience of e-auctions at the implementation of all types of procurement. According to the Belarusian Universal Commodity Exchange data for 2011-2013, 1494 electronic auctions with results of concluded contracts for 2454.2 bl. rubles are performed. The Belarusian organizations have got access to participation in e-auctions which are performed in Russia, without the need for opening Belarusian agencies on Russia’s territory.

The first year of e-auctions vividly showed their advantages: high level of informational safety and protection of transactions thanks to digital signature application; publicity and openness of information on e-auction; optimum and effective expenditure of budgetary funds; full anonymity of participants up to the completion of the e-auction; reduction of expenditures for providing procurement. Thus, the transfer of public procurement in electronic form means not only economy of budgetary funds and control for purchases, but also trust increase to the authorities, transparency of their work.

#### 4. PUBLIC PROCUREMENT IN THE SUB – NATIONAL GOVERNMENTS: CASE OF MINSKAYA OBLAST

The procurement activity at sub-national levels are generally performed via two channels: via the centralized channel of procurement and the channel of decentralized one. The centralized procurement channel covers mainly the public procurement system which is funded by local budgets and off-budget funds of the local governments. Normally, the centralized procurement channel is characterized by difficult bureaucratic and multilevel procedures from formation of municipality orders before their inclusion in consolidated plan of procurement up to payment through the treasury accounts. The decentralized one covers procurement from own financial sources of the municipal organizations only. As a rule, it is from own incomes accumulated by the public utilities or other municipal organizations from business activity which are in jurisdiction of municipalities. In more detail the scheme of purchases at sub-national level is illustrated in figure 2.

Procurement at sub-national level occupies an essential share in local budget expenditures of municipalities, and their share in the gross regional product (GRP) <sup>8</sup> has a stable component. For example, in the Minskaya oblast's consolidated budget the expenditures for purposes procurement during 2007-2013 reached 36.3 % in average, and their share in GRP is 6.5%. Dynamics of these indicators is illustrated by figure 3.

As figure 3 shows, the greatest share of purchases in expenditures of Minskaya oblast's local government budget took place in 2010 and reached more than 40%. Thus, the share of purchases in GRP made up 7.28 %. For the analyzed period the dynamics of procurement in Minskaya oblast characterizes the tendency of their growth. Thus, the growth of their volumes took place both in national currency and in euro equivalent that is illustrated by the data of figure 4. Comparisons of procurement assessment in national currency and in euro equivalent as a whole prove a tendency of their growth. However, outlined their "failure" in 2008 and 2011 in Euro assessment is explained by the existence of crisis phenomena in Belarus and devaluation of national currency conducted by the Central Bank those years.

Among municipal budget expenditures of Minskaya oblast the public procurement occupy 36.9% (see fig.5). The main articles of consolidated budget expenditures which covered public procurements are the following: purchases subjects of supply and expendables; pay-

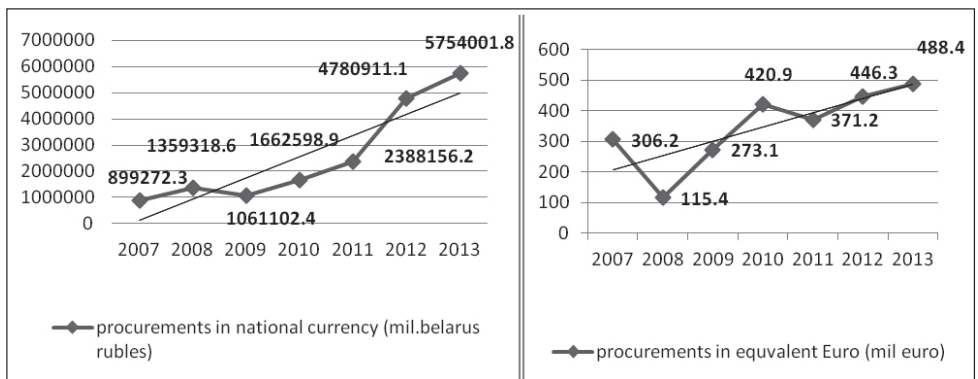
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8 The indicator of the gross regional product (GRP) represents the sum of a gross value added and size of pure taxes on products by types of economic activity of the certain region.

ment of transport services; communication fee; payment of public utilities; fee on standard design; other operating costs on purchases of goods and services (maintenance of buildings, the equipment, roads); capital investments; purchases of equipment and other fixed assets; capital construction; capital repairs.

Further procurement research in the municipalities of the Minskaya oblast showed their share in local budget expenditures by the governmental levels. Strangely enough, primary local governments – rural and settlement municipalities dominated, here. It is displayed by the following table 4.

**Figure 4.** • Dynamics of public procurements in municipalities of Minskaya oblast for 2007 – 2013 in national currency (mil. belarus rubles) and in equivalent Euro (mil. Euro).



SOURCE: OWN AUTHOR'S CALCULATIONS ON THE BASE OF MINSK OBLAST'S FINANCIAL DEPARTMENT REPORTS

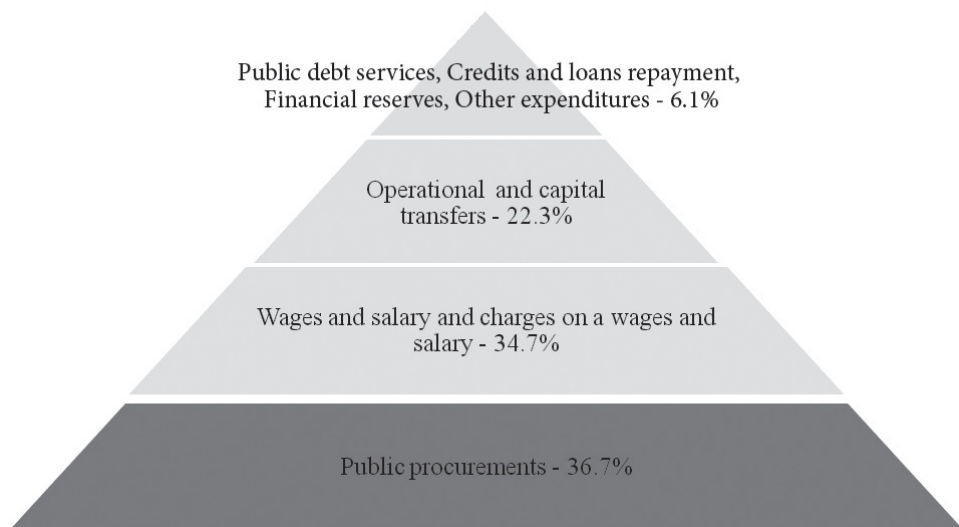
As we see, table 4 shows that in local budget expenditures for the analyzed period the lower local governments had the greatest share in procurement. For example, the share of procurement of urban and rural governments made up more than 57% in their budgets, the share of city's governments with rayon status made up more than 43%. In these local governments the procurement for operational purposes dominate and procurement of capital ones, in turn, are lower. As a rule, procurement of lower municipalities is connected with the performance of their governmental functions for the improvement of their territories which is the main function in primary municipalities. The share of procurement's expenditures in local budgets of rayons, cities with oblast status and oblasts are less and reached 29.2%,30.4%,29.7% , respectively.

During the further analysis of public procurements at sub-national level the distribution of procurement by the levels of the sub-national governments was affected (see table 5). Analytical results showed a totally different picture in comparison with the previous table 4.

Table 5 shows that in procurement by levels of sub-national governments, oblast government and rayon ones dominated. Their shares in cumulative purchases of the Minsk oblast made up 46.33% and 48.68% respectively. The share of lower level local governments: rural and urban settlements and cities of rayon status all together hardly reached 3% from all pur-

chases in Minskaya oblast. It is explained by the weakness of local municipalities, the limitations of their authorities and functions in public administration, and also high extent of centralization processes where the higher local governments are making procurement for subordinate municipalities, being guided by the principles of reduction costs in the procurement process. It deprives local municipalities to conduct procurement activity independently. In fact, this tendency spectacularly reflects a situation in the Belarusian fiscal decentralization where all authorities and resources are concentrated on the higher governmental levels.

**Figure 5.** • *The integrated structure of the consolidated budget expenditures of Minskaya oblast's municipalities during 2007-2013 (average annual data)*



SOURCE: FIGURE DEVELOPED BY AUTHOR'S CALCULATIONS ON THE BASE OF MINSK OBLAST'S FINANCIAL DEPARTMENT REPORTS

## 5. THE CORRUPTION FIELDS IN SYSTEM OF PUBLIC PROCUREMENT

The system of public procurement in Belarus, as well as in other countries, isn't deprived of corruption. Thus it should be noted the main fields of corruption behavior and corruption factors are covered in the imperfect procurement legislation, insufficient transparency and accountability of the public procurement system for citizens, mass media, public organizations and municipal communities.

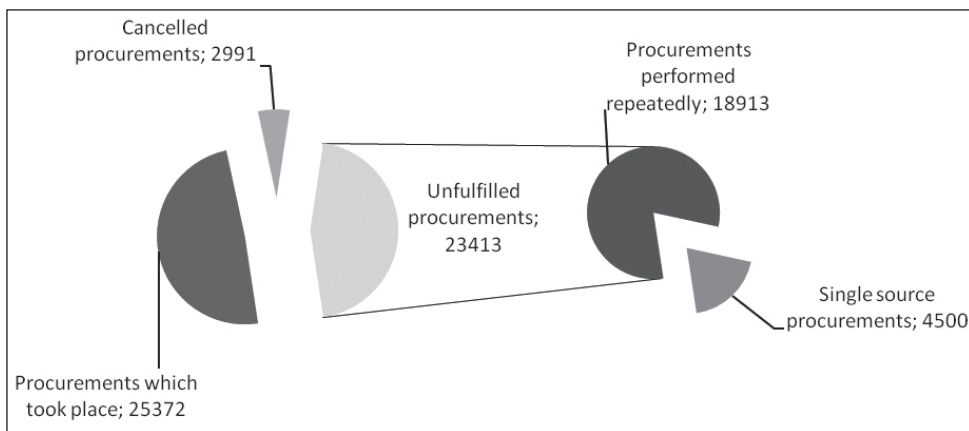
One of the weak points of the public procurement system which creates a field for corruption is a legislatively recognized form "single source procurement"<sup>9</sup> or procurement from one supplier only. Our research shows that this form of purchases is dominating in procurement

<sup>9</sup> Single source procurement is the way of contract conclusion when direct purchases of demanded goods, works, services are performed by the single supplier.

activity and it form belongs more than one third of all purchases in the country (see fig.1). It should be noted, however, that the form of “single source procurement” “potentially increases corruptibility in the public procurement sphere at which conditions for arrangement of supplier and customer for obtaining mutual benefits are created. The authorized government body on public procurement – the Ministry of Trade – legislatively does not control this form of procurement and information concerning these procedures is not published. It excludes the principles of transparency and accountability in public procurement sphere. As the result, it leads to the inefficient use of budgetary funds for purposes of public procurement.

As an example of corruption caused by “single source procurement” is the fragmental situation of 2013. According to the official site on procurement in Republic of Belarus 51,776 procurement procedures were performed, from which 25,372 purchases or a half from all registered cases have taken place, registered as the cancelled procurement – 2,991 cases, did not take place – 23,413 cases. It is displayed on figure 6.

**Figure 6.** • *The structure of purchasing procedure in 2013 (fragment)*



SOURCE: FIGURE DEVELOPED ON THE BASE OF KOVALKIN’S RESEARCH; KOVALKIN, V.(2014), P. 6.

However, from 23,412 cases recognized unfulfilled, 4,500 were subsequently realized as single source procurement, and 18,913 cases are registered as purchases performed repeatedly. Thus a half of purchases of these cases subsequently were implemented on a non-competitive basis.<sup>10</sup> Another weakness creating a field for corruption in the public procurement system is a legislatively introduced concept: “trade secret”. Under the concept of “trade secret” it is possible to leave from transparency of procurement procedure. The concept of “trade secret” in the Belarusian legislation is too vague, so unfair bidders can use both from the customer and from suppliers. For example, under the guise of a “trade secret” some bidders can

10 Kovalkin, Vladimir “Gosudarstvennye zakupki: povyshenie prozrachnosti i podotchetnosti” [Public procurement: rising of transparency and accountability] , 2014, 15 pages. [online]. Available at< [http://sympa-by.eu/sites/default/files/library/policy\\_paper\\_bipart\\_procurement.pdf](http://sympa-by.eu/sites/default/files/library/policy_paper_bipart_procurement.pdf)

refuse providing specifications and additional data necessary for the preparation of a competitive offer. As a result, an artificial elimination of companies capable of giving the best conditions of contract, but which are not pleasing to government institutions occurs. In this situation, however, contracts on public procurements are not published.

A serious concern is caused by the recent exclusion from the Law “About government procurement of goods (works, services)” procurement in the sphere of construction. According to the Decree of the President of the Republic of Belarus of 31 December, No. 591, since 2014 procurement in the sphere of construction began to be regulated by the special legal act of the Council of Ministers<sup>11</sup>. An exception from procurement procedures in construction sphere from the legal framework of the Law “About public procurements of goods (works, services)” can not only reduce transparency and accountability of government procurement, but also to call into question the implementation of international agreements by the Republic of Belarus.

The factor of strengthening corruption in public procurement is the restriction of foreign suppliers, including EU countries, by the Belarusian legislation. Preferences in procurements concerning goods, works and services to the Belarusian producers or to producers of countries to whom the national treatment (Russia, Kazakhstan) are provided. Potentially it reduces the competition for the best purchases and raises corruptibility level. The involvement of well-known international companies into participation in public procurement procedures can considerably reduce corruption risks where purchases on large sums are performed. Besides, the participation of western companies in procurement tenders gives big benefits for the central and sub-national budgets.

## 6. DISCUSSION ISSUES OF PUBLIC PROCUREMENT IN BELARUS

A public procurement theme is a very big and important subject in the system of public administration. The analysis of procurement activity at the sub-national governments' level showed that in the system of purchases there is a serious methodological shortcoming. Public procurements in Belarus are considered as how an independent subject without context of local government administrative tasks, and regulating separately, without specifics and problems of regional and local government. Between them there are no essential interrelations. The problem is that the place of public procurement in the system of regional and local government is not defined. The interrelation between these two directions is only that government purchases are funded by the Central and local budgets and off-budget funds. In fact, the interrelations between public procurements and regional and local governments should develop instruments for providing public services.

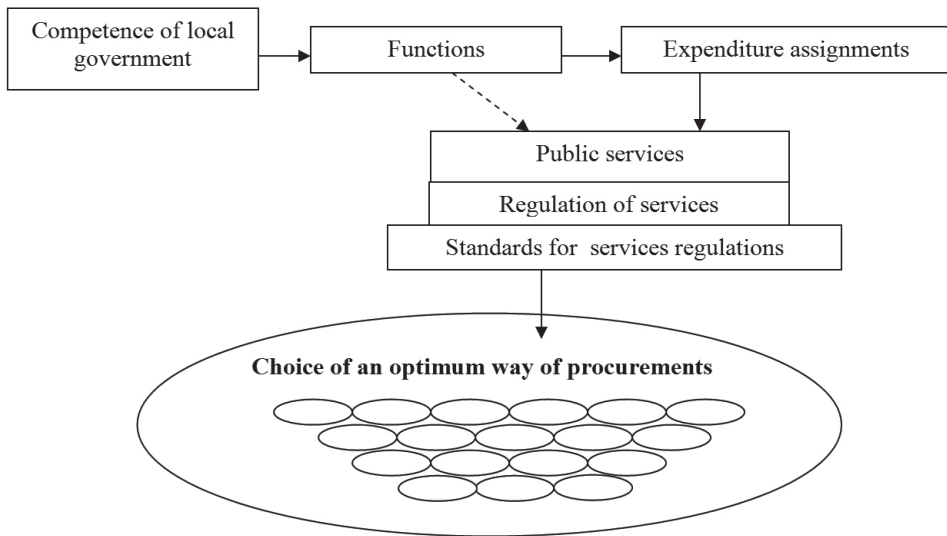
The absence of serious interrelations between the systems of purchases of both regional and municipal administrations is partly caused by the absence of accurately fixed expenditure assignments or spending rights and functions in the sub-national governments in Bela-

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11 Ukaz Presidenta Respubliki Belarus “O provedenii protsedur zakupok pri stroitelstve” [About performing procedures of procurement at construction], ot 31 Dekabrya 2013, No 591, 2013 [online]. Available at <http://www.pravo.by/main.aspx?guid=3871&p0=P31300591&p1=1>

rus. The existing functions are rather indistinct and legislatively are not fixed. For example, it allows performing expenditures for procurements of the higher governments instead of lower ones. Another reason of the absence of interrelations between these directions is the unwillingness of authorities to create a specific system of regional and municipal procurements. They give reason caused by the need of universalization and unification of the public procurement mechanism and exclusive existence of state administration at all levels including local ones. Meanwhile, such regional and municipal procurement specifics have to have the right for existence (see figure 7).

**Figure 7.** • *Interrelation between of local authority competence, expenditure assignments and a choice of an optimum way of purchase*



SOURCE: FIGURE DEVELOPED ON A BASE OF OWN AUTHOR'S RESEARCH

Recognizing that procurement makes sense as an instruments of public service only, it is lawful to demand the optimum ways of its granting determined for each public service “today” and “for the next 3 years”. For example, municipality departments have to have an optimum way of procurement where it has to be noted that at each “subordinated” service: today in the sphere of health care we shall use the fifth way of purchase, and tomorrow in education – the third way. Thus, by each of these ways the economic substantiation has to be developed.

Debatable issues are transparency and accountability problems and an assessment of public procurement productivity by the local governments, local community, mass media, and citizens. The creation and functioning of websites on the placement of public procurement is an important step to improve their transparency, but far insufficient from the positions of accountability and the assessment of public procurement efficiency.

So, information on public procurement and legislation acts concerning procurement are published in open access on an official website ([www.icetrade.by](http://www.icetrade.by))<sup>12</sup>. To information on public procurement annual plans of public procurement, invitations to participation in procurement procedures, the documents submitted to the participant for offer preparation on participation, the messages on procedure results of government procurements, data on the contracts, and other lists, protocols and documents are summing up of public procurement procedure in the case of open competitions and electronic auctions. The messages about the results of public procurement procedure are published by the customer on the official website. In the case of e-auction they publish information on an electronic trading platform. At the same time, on official sites the contracts signed as a result of performing of public procurements procedures are not published. In this case, the public and the bidders have no opportunity to track and check the public procurement procedure from the placement invitation to the contract conclusion.

The statistics of an official site shows that messages about procurement procedure results take place only in half of cases which is a direct violation of the current legislation. It testifies that the authorized government body on public procurement: the Ministry of Trade does not cope with the control of all of public procurement procedures though the problem could be solved by the means of simple software. Thus, it is possible to note that information on purchases performing is not full and is not easily available.

In our opinion the message about the results of public procurement procedure have to be published on an official site when all types of procedures are accessible except when data on procurement comprise state secrets. Moreover, the message about public procurement procedure results has to include not only the price of signed contracts, but also the full tender proposal of each bidder. It is also necessary to provide the visibility of the contracts content signed as a result of public procurement procedures. The full text of the contract with all additions and specifications in register has to be published on an official site. But before its official publication the contract has to be considered as an invalid one.

For increasing transparency level and decrease corruption risks in the procurement system it is necessary to introduce e-auctions more widely. Such type of a competitive system of public procurement has to replace all other traditional types of procurement and to become the dominating one in the long term. One of the e-auction advantages is the possibilities of viewing of all procedures, beginning from the offer announcement on purchase up to the performance of contracts by suppliers. Meanwhile in practice, both customers and suppliers reluctantly go to public procurement through e-auction, keeping possibilities for noncompetitive procurement to come back to single source procurement or purchases from a unique source. Thereby it creates opportunities for the existence of corruption in the field of procurement activity. In this connection e-auctions comprise an obstacle for aspirations to perform procurements in the form of "single source procurement" and they will reduce corruption risks. In the long term it

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12 An official web-site <http://www.icetrade.by> was created to accumulate information on public procurement as well as statistics and legal acts that regulate public procurement.

is necessary to improve e-auctions having included there procedures of pre-qualification selection of service providers.

In the system of public procurement a problem point is the multilevelness in public procurement decision-making. A preliminary stage of procurement decision-making is connected with carrying out state examination of concrete procurements. After this procedure it is necessary to prepare a business-plan for procurements. Further examination at local level, and then at regional level are performed, as well. The subsequent procedures on procurement should be performed both at the Ministry of Finance and the Ministry of Economics, and final decisions on procurement are made only then. Thus, the inclusion of system into the procurement plan is quite bureaucratic, difficult and also multi-stage.

A serious concern is caused by the lack of control and monitoring of public procurements by the non-governmental organizations which could protect public interests. Such control should be enclosed in the special anti-corruption programme in the sphere of public procurement which has to be developed by the Ministry of Trade and which is non-existent so far.

A not less important debatable issue is the cancellation of the existing discrimination concerning foreign suppliers and contractors. It is known that the new Law on public procurement introduces national treatment for foreign goods (work, services) and bidders offering those goods (work, services) provided the Belarusian goods (work, services) and bidders enjoy similar treatment by the respective foreign state<sup>13</sup>. In our opinion, such measure considerably reduces the competitive environment and cuts down equal opportunities of foreign companies as suppliers. The involvement of well-known international companies into participation in public procurement procedures can not only strengthen the competition in purchasing activity, save budgetary funds, but also substantially reduce corruption risks in public sector. In this connection it is necessary to exclude these discrimination measures provided by the current legislation, concerning foreign goods and companies in order to provide equal opportunities for all bidders.

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13 Sakolchyk, Tamara. "Belarusian public procurement laws brought in line with Common economic area legislation". Lexology. [online]. Available at <<http://www.lexology.com/library/detail.aspx?g=9f9e31ac-b95a-4329-998d-0bd880c0331f>>

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Ágoston Restás

## DECISION MAKING METHOD IN EMERGENCY

*Introduction: In case of emergency we can face a special situation without any warning sign and we can meet the requirements for improvisation making our decision. Improvisation can be at any level of the management (strategic, operational and tactical) but at tactical level the time pressure is certainly the biggest problem. Fire managers have a typical profession, during which making recognition-primed decisions as a symbol of naturalistic decision-making is regularly required. Method: Different tools and methods were used to achieve goals; one of them was the study of the relevant literature, the other one was author's own experience as a firefighting manager. Other results come from two surveys: one of them was an essay analysis, the second one was a word association test; both of them were specially created for this research by the author. Results: the author created a simple and a complex model for firefighting managers making decisions, taking into account the time pressure, the limited capability of processing information and also a mechanism complementing the recognition-primed decision.*



### 1. INTRODUCTION

Disaster managers, especially firefighters, can face a special or emergency situation without any warning sign and even if it was forecast they can meet the requirements of improvisation making their decision. It can be a nuclear accident or its generated problem not just in Hungary but also at international level<sup>1</sup>, a chemical accident in the industry or at different transportation lines like road or train . Improvisation can be taken at any level of the management (strategic, operational and tactical) but at tactical level the time pressure is certainly the biggest problem. This article focuses on fire managers as an ideal example to

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1 Pátzay, Gy., Weiser L., Feil F., Patek G.: Analysis and Selective Treatment of Radioactive Waste Waters and Sludges in Waste Water, In: Fernando Sabastian Garcia Fernando Sabastian Garcia (ed.) Waste Water- Evaluation and Management. Rijeka: InTech Education and Publishing, 2011. pp. 203-216

demonstrate a special decision making method in emergency and shows a modellisation of the method for better understanding. Even if regulations for prevention are very important and following its rules can help a lot in many cases e.g. in chemical industry or chemical transportation,<sup>2</sup> preparing the responsible organizations for new challenges are not avoidable. New challenges mean naturally many topics like regulations<sup>3</sup>, work of authority, academic or special trainings<sup>4</sup>, activity of voluntary organizations and there are also other issues like climate change or GIS-based decision support systems at tactical level<sup>5</sup>. Military practice can be also adopted in some cases –, but can also raise the problem at a large scale incident or at the method of recovery<sup>6</sup> or cross border cooperation<sup>7</sup>. From the wide range of the problems mentioned above this article focuses on the operational and tactical level of the active intervention where problems converge to one main problem, which is the quick decision, quick response.

An important element of the activities of security managers or emergency responders is that they cannot, or only to a very limited extent can modify the terms of the task, improve them as desired. Despite the differences of environment, indications of the *complexity* of the situation, the possibility of the *radical change* in the given situation, *uncertainty* and *ambiguity* of the information available can be recognized and well identified. Most of these factors are present; occasionally all of them may be present at a certain level of emergency decisions: including the strategic, operational and tactical levels, but certainly with a different focus or at different times. On strategic and operational levels, in general, not only more time is available, but also human and technical resources are at hand more broadly, and decision support instruments as well to reduce uncertainties occurring. All of them stand implicit at the background of the intervention's safety, which is a priority during the intervention and also a very important and complex question at tactical level<sup>8</sup>.

As an example, the extinction of fire in a minor dwelling house requires the implementation of a completely different, simpler scope of tasks than to control fire in a mid-high build-

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2 Horváth, H., Kátai-Urban L.: Veszély-elhárítási tervezés a vasúti rendező-pályaudvarokon; Katasztrófavédelmi szemle: Védelem 2013. XX. (2) [www.vedelem.hu/letoltes/tanulmany/tan436.pdf](http://www.vedelem.hu/letoltes/tanulmany/tan436.pdf) downloaded: 13.03.2014

3 Endrődi, I.: A katasztrófavédelem feladat-, és szervezet rendszere, National University of Public Service, Budapest, Vezető- és Továbbképzési Intézet, p. 86 2013

4 Grósz, Z.: Védelmi igazgatási képzés a Zrínyi Miklós Nemzetvédelmi Egyetemen, VÉDELEM – KATASZTRÓFA- TŰZ- ÉS POLGÁRI VÉDELMI SZEMLE 3: (5) pp. 23-27. ISSN 1218-2958

5 Kóródi, Gy.: A térinformatika új lehetőségei a háborússérült-ellátásban; KARD ÉS TOLL 2002:(1) pp. 139-141.

6 Ambrusz, J.: A vis maior tartalék felhasználás szabályai, valamint a lakossági kárenyhítés lehetősége, az eddigi országos és helyi tapasztalatok tükrében; Védelem on-line [http://vedelem.hu/?pageid=kereses\\_index](http://vedelem.hu/?pageid=kereses_index), downloaded 26.02.2014, ISSN 1218-2958

7 Komjáthy, L.: MAGYARORSZÁG TŰZVÉDELME A HATÁRMENTI TELEPÜLÉSEK TŰZVÉDELME, HADMÉRNÖK 8: (1) pp. 99-106. 2013 [http://hadmernok.hu/2013\\_1\\_komjathyl.pdf](http://hadmernok.hu/2013_1_komjathyl.pdf) downloaded: 28.03.2014, ISSN 1788-1919

8 Pántya, P.: Hatékonyság és biztonság növelése az osztó vonala mögött, VÉDELEM ONLINE: TŰZ- ÉS KATASZTRÓFAVÉDELMI SZAKKÖNYVTÁR 2011 pp. 1-8. ISSN 1218-2958

ing<sup>9</sup> <sup>10</sup> or ensuring the preventive rules<sup>11</sup>. Short term disasters require immediate reaction, however slowly developed climate change gives time to create a strategy<sup>12</sup>.

The different scopes of tasks exist in different environments and structures, so the solution of similar basic problems also exists in other dimensions. Based on the author's own experience, the more extensive case we are dealing with in time, space and from the aspect of involvement in the incident, the more cumulatively the above factors prevail, but because of the protracted implementation, it is easier to solve them. The most limiting factor from the ones above is *time*. This provides a framework impossible to burst and a forced drift, a *pressurized channel* for the decision-maker, entangled in which one can no longer break free. The functional background of decisions made in a short time, their mechanism different from the conventional has been studied recently, and the name *recognition-primed decision*<sup>13</sup> has been given to this special decision procedure.

## 2. DECISION-MAKING MECHANISM OF A FIRE MANAGER

Limited time frame allows the processing and management of limited amount of information. We know from Miller's research that the short-term memory of the vast majority of people can only process simultaneously  $7 \pm 2$  units of information<sup>14</sup>. This information, of course, can be quite different, e.g. characteristics of fire, the capacity of the response unit, a number, or even the absence of information searched for. Our memory handles the combinations, "operations" between the information units as information units<sup>15</sup>, from which clearly springs forth that the capacity of the short-term memory of a firefighting manager is exhausted very quickly.

The author has proven by essay analysis<sup>16</sup> how complex the tasks of emergency responders are; this shows that in several cases, simultaneously, there is or would be a need to process many more units of information than the capacity of our short-term memory would allow. The maintenance of our decision-making capability, i.e. our short-term memory, based on the above, clearly requires that we should omit analysing and evaluating decision-making processes protracted and use the recognition-primed decision-making procedure, based on previous experience.

9 Bleszity, J. and Zelenák, M.: Tűzvédelmi ismeretek, Budapest: Szövetkezeti Szervezési Iroda, 272 p. 1990

10 Pántya, P.: A tűzoltói biztonság növelése zárt téri beavatkozások során, Műszaki Tudomány az Észak-Alföldi Régióban 2012. Debrecen: Debreceni Akadémiai Bizottság Műszaki Szakbizottsága, 2012. pp. 393-404.

11 Horváth, L. A MŰEMLÉK ÉPÜLETEK TŰZVÉDELMI KÉRDÉSEI, 2013. XXII. (3). Tematikus Különszám TŰZVÉDELEM 2013, pp. 109-114. <http://uni-nke.hu/downloads/bsz/bszemle2013/3/9.pdf> downloaded: 31.03.2014.

12 Padányi, J.: Éghajlatváltozás és a biztonság összefüggései., HADTUDOMÁNY 1-2: pp. 33-46. 2009, [http://mhht.eu/hadtudomany/2009/1\\_2/033-046.pdf](http://mhht.eu/hadtudomany/2009/1_2/033-046.pdf) downloaded: 16.03.2014; ISSN 1788-1919

13 Klein, G. A.: Strategies of decision making, Military Review, No.5. 1989

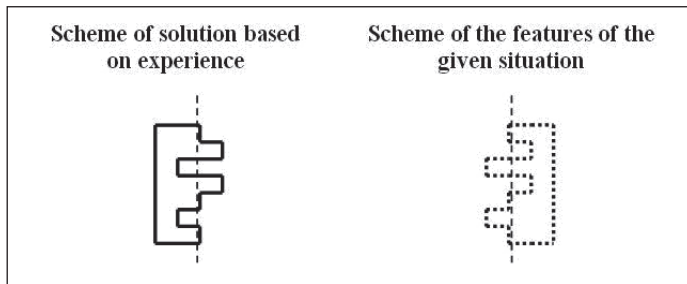
14 Miller, G. A.: The Magic Number 7 Plus or Minus 2; Some Limits on our Capacity for Processing Information, Psychology Review, Vol. 63. 1956

15 Ribárszki, I.: Döntépszichológia, Zrínyi Miklós Nemzetvédelmi Egyetem, Jegyzet, Budapest, 1999

16 Restas, A.: Principles of Decision-Making of Firefighting Managers, Based on Essay Analysis, In: Hervé Chaudet Liliane Pellegrin, Nathalie Bonnardel (Ed.) Proceedings of the 11th International Conference on Naturalistic Decision Making, Marseille, France, 2013. pp. 247-250, ISBN:979 - 10 - 92329 - 00 - 1

The author wishes to create a model element to demonstrate the decision-making mechanism of firefighting managers, which takes into account the limits of the simultaneous processing of information, that is, it also illustrates Miller's decision-making capacity. Since the information units may be qualitatively independent of each other, the author chooses the simplest graphical representation of the unit-based discrete difference to separate them from each other. A model element must be able to graphically demonstrate the schemes based on earlier experience, the characteristics of different fires, and the interlocking of the former as the application of the scheme, which represents the technically correct solution of the task, i.e. the effective decision. The model refers, at the general model of recognition-primed decisions, mostly to Klein's work<sup>17 18</sup>.

**Figure 1.** • *Graphic representation of the empiric scheme of recognition-primed decisions matching a given situation.*



SOURCE: AUTHOR

The schemes in figure 1 represent 7 graphical discrete values, which are marked by positive or negative protrusions and their “centre line”; these values indicate the amount of simultaneous decision-making capacity. Therefore, the “negatives” of the schemes can be matched with a given situation and the necessary solution. As an integration of the above processes, decision mechanism functions as follows: an experienced firefighter has performed the elimination of a large number of different fires. Despite the differing parameters of each fire, some characterizing features can be well conceived (figure 2).

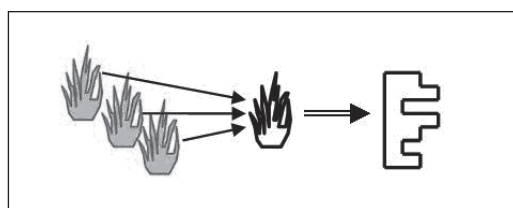
The characterizing features of identical types of fires are crystallized by experience and are fixed in our long-term memory. Similarly, to the characteristics of a fire, the characteristics of successful extinguishing, the facilitating decisions are also fixed (figure 3); just as the mistakes desired to be avoided and the unsuccessful procedures and failures. Experience gained through many years, based on the features of fires, formulate the system of schemes, behind which we can find actions (decisions) efficiently applicable to eliminate them.

17 Klein, G. A.: Strategies of decision making, Military Review, No.5. 1989

18 Klein, G. A.: Sources of Power: How People Make Decisions Cambridge, MA: MIT Press 1999 ISBN 0262611465

If another incident has almost the same circumstances as one already many times successfully eliminated by an emergency manager previously (model of positive confirmation), he will attempt to use the same techniques in the procedures. Therefore, another fire, quasi bearing the typified properties of previous similar fires, makes a decision-maker involuntarily immediately recall the typified decisions. The properties of a fire and of previous successful extinguishing operations, based on the above, are closely interlinked; they are each other's "reflections" (figures 4). Through the results of association studies the author proved that the above, i.e. the characteristics of a fire and the thoughts directed towards its extinguishing, the schemes of response, are very closely connected in a complex way in the case of firefighters.

**Figure 2.** • *Evolution of the scheme on fire.*



SOURCE: AUTHOR

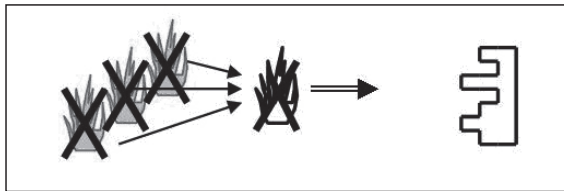
When a firefighting manager identifies a fire, he imagines what would happen if he applied the usual tactics to fight it. If the scheme of solution matches, he accepts it, if not, he rejects it and thinks of the next most typical action. Thus, it is a recognition-primed, model-matching process, which can be followed by a quick and almost automatic decision.

The long-term memory of a firefighting manager, through practical experience, has the schemes of both different fires and their extinguishing characteristics. During another alert, information available and collected on a fire automatically generates the recollection of the scheme necessary to solve it, based on which a firefighting manager defines the necessary firefighting tactics. However, the results of association studies clearly point in the direction that at a given fire (problem) managers do not focus on the fire as a problem but rather on its immediate solution. From this, the author makes the conclusion that a decision-maker will not follow the change of the characteristics of a fire, but the validity of solution scheme, that is, the dynamics of the implementation of the extinguishing process. This does not mean a contradiction with the previous, but rather a difference in views, the shift of emphasis of the focus of attention.

The difference in views, that is, the shift of emphasis means that a firefighting manager does not focus on the change of characteristics of a fire, but rather on the expected evolution and dynamics of the scheme selected, i.e. extinguishing tactics. Based on the previous, these are, of course, inseparable from each other, however, the author finds the dominance of the interventions trend so strong in the results of association studies in the case of firefighters that, based on it, the author judges his above conclusion to be justified. The thought sequence fire-charac-

teristics–solution is attractively logical, however, the decision capacity of our memory is facilitated if it manages and reduces the necessary information in the simplest possible way. Since the schemes of characteristics relating to a fire exist together with the schemes of solution, there is no real need for it to appear in our short-term memory. Thus, the function appearing is modified to the simplest and shows the format fire–solution.

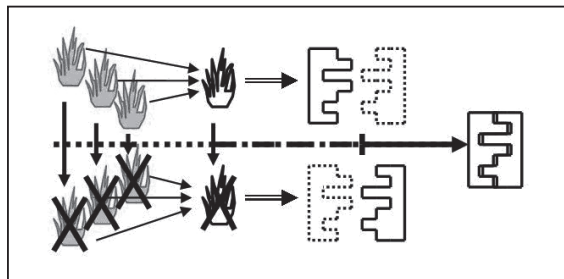
**Figure 3.** • *Evolution of the scheme on the lessons learnt from extinguishing a fire.*



SOURCE: AUTHOR

The above do not contradict Klein’s model, they rather complement it. Klein, in his model, evaluates (imagines what will happen) the results of matching schemes by the decision-maker prior to performing the action version which, based on the author’s own experience, is so without doubt, however, the aftermath of the decision, in the author’s opinion, is much more significant in the case of firefighting managers.

**Figure 4.** • *Aggregated schemes on fire and the evolution of the lessons learnt from extinguishing it.*



SOURCE: AUTHOR

Since the problem immediately and automatically generates both the direction of the solution and the start of the action version, it is rather the process itself which is important in terms of efficiency, which is caused by the decision. The schemes based on experience certainly contain the information on the dynamics of the process of fire, so if it meets the expectations, we do not have to modify the original firefighting tactics. However, if the dynamics of the process does not suit the expectations, the change is inevitable in the performance of efficiency. Based on the above, the recognition-primed decision is not just an individual act before extinguishing the fire, but it is also the con-

tinuous accompaniment as needed. Therefore, the author shares the view that an experienced decision-maker perceives the problem together with its solution; furthermore, the author extends the continuous co-existence of the problem and of the whole process of solution of an emergency.

### 3. MECHANISMS COMPLEMENTING A RECOGNITION-PRIMED DECISION

Different triggers, internal resources ensure the operation of recognition-primed decisions. Klein in his work assumes 5 markedly distinct abilities, these are intuition, imagination, perception of the invisible, the ability to formulate, metaphors and analogies<sup>19</sup>. In the joint work of Cohen, Freeman and Thomson<sup>20</sup>, the attention is drawn to the importance and benefits of critical thinking as criticism of actions planned by ourselves.

Despite the fact that one could assume, based on the previous issues, that recognition-primed decision-making is exclusivity on a tactical level, it is absolutely not true. We can compare it with several fires or incidents, still, one of the essential features is that it protracts in time. It allows the decision-maker to think over the situation, collect information, develop action versions and consider them.

#### ***3.1. Analytical thinking***

Killion sees the combination of recognition-primed decision-making with the analyzing and evaluating procedure in two ways<sup>21</sup>. In both cases, the conditions are that adequate time should be available for analyzing the options. In the first case, prior to recognition-primed decisions, focusing on the given circumstances, we set up options and analyze them. In the second case, a more detailed analysis of the action version of our recognition-primed decision may take place. In the latter case, the spectrum of the task is obviously significantly narrower than in the first case. The two mechanisms, depending on the situation, can be harmonized or one of them may become predominant.

#### ***3.2. Critical thinking on a tactical level***

Cohen, Freeman and Wolf studied the possible decision support role of critical thinking on a tactical decision-making level<sup>22</sup>. In their work, active naval officers and case reports were stud-

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19 Klein, G. A.: Sources of Power: How People Make Decisions Cambridge, MA: MIT Press 1999 ISBN 0262611465

20 Cohen, S. M., Freeman, J.T., Thompson, B.B.: Integrated Critical Thinking Training and Decision Support for Tactical Anti-Air Warfare; Report, Cognitive Technologies, Inc., Naval Air Warfare Center Training System Division, Contract No. N61339-96-R-0046. 1996

21 Killion, T.H.: Decision Making and the Levels of War; Military Review, United States Army Combined Arms Center, Fort Leavenworth, Kansas, November-December 2000

22 Cohen, S. M., Freeman, J.T., Thompson, B.B.: Integrated Critical Thinking Training and Decision Support for Tactical Anti-Air Warfare; Report, Cognitive Technologies, Inc., Naval Air Warfare Center Training System Division, Contract No. N61339-96-R-0046. 1996

ied based on which they state that experienced emergency decision-makers, in new situations, using their previous experience, make decisions with the help of recognition-primed mechanisms. Cohen's model explains in detail the critical analytical strategies that contribute to the operation of recognition-primed thinking. Systematic situation models often based on informal narratives as schemes organize our information in cause and effect relationship in individual cases and underpin the development of recognition-primed thinking.

### **3.3. Satisfactory procedure mechanism**

Previously we have seen that a firefighting manager's time, just as the time of other decision-makers in an emergency to make a decision is limited. Since this time limit precludes the possibility to carry out the necessary analyses of the classic model, objectively the choice of an optimum option is not achievable for a decision-maker. In response to the difficulties of the collection of information and the reduction of the costs in relation, a decision-maker does not strive for optimum results, but, depending on the circumstances, settles for satisfactory solutions.

### **3.4. Decisions by exceptions**

The aim of the application of the method is that the leadership responsibilities of managers should be drastically reducible; its essence is that we should only intervene into processes having permanent characteristics in majority, if they cross the pre-specified lower and upper limits. The method, management by sensitive exception, so derived from the dynamics of the processes, the necessary interventions are now possible even before crossing the borders<sup>23</sup>. The method of management by exceptions, based on the author's experience, is the greatest help for a firefighting manager to continuously maintain his decision capacity. It can appear in different ways, like protocol procedures, individual way of speaking, silence approval, peripheral vision, and information-processing in zones.

### **3.5. Creativity**

Creativity has many definitions. Munteanu, in one of his works, presents 35 ones, which approach creativity in different ways, however, there is no single definition generally accepted or used,<sup>24</sup>. Analyses researching creativity show that there are three general directions of study<sup>25 26</sup>. The first one concerns the nature of creative thinking, the second one the development of creativity and the third one the characterizing properties of creative people.

23 Hoványi, G.: A menedzsment új horizontjai; Közgazdasági Szemle, XLIX. (3.), pp 251-264, 2002

24 Munteanu, A.: Incursiune în creatologie. Timișoara, Editura Augusta. 1994

25 Csíkszentmihályi, M.: Kreativitás – A flow és a felfedezés, avagy a találmányosság pszichológiája; Akadémiai Kiadó, 2008

26 Zoltayné Paprika, Z. Döntésmélet; Alinea Kiadó, Budapest, 2002, ISBN 9638630612

Amongst the properties, there is practically none, which would not be advantageous for efficient work in a VUCA environment describing the working conditions of a firefighting manager. Based on the above, the author made the conclusion that the creative capabilities of a firefighting manager can be explicitly beneficial for facilitating the technically correct decisions relating to firefighting and technical rescue tasks.

### 3.6. Heuristics

Heuristics means that certain distortions are not incidental and unarranged errors, but the results of simplifying mechanisms, with which decision-makers make the complicated tasks manageable for themselves, which cut the Gordian knot<sup>27</sup>. Based on research related to the names Tversky and Kahneman, we distinguish 5 basic groups of heuristics<sup>28</sup>. These are representativeness, availability, fixing (imprint) and adjustment heuristics, retrospective distortion, as well as overconfidence and calibration. Studying the activities of firefighting managers, there are many examples of practical heuristics.

Research show that overconfidence means that the division between actual and putative knowledge is around 50%<sup>29</sup>. We are best able to judge the certainty of our decisions around 80% of knowledge, over this value we underestimate our abilities. The above have shown that our actual knowledge does not grow parallel with certainty; the increase of our knowledge does not automatically mean the growth of self-assurance<sup>30</sup>. During firefighting (technical rescue), the characteristic VUCA environment exactly expresses that the actual knowledge of a decision-maker can only be partial, he can only be sure temporarily of the reliability of his knowledge. Aggregating the above, we can see that the risk of overconfidence continuously prevails in the decisions of a firefighting manager.

## 4. THE COMPLEX MODEL OF DECISION-MAKING IN EMERGENCY

If not enough time is available for analysing and evaluating decision-making, recognition-primed procedures receive a greater role. Critical thinking uses recognition procedures, during which the decision-making process can be accelerated or analysed with the help of a quick test and depending on the time available. The quick test, considering the circumstances, hinders recognition-primed decision and prefers critical thinking. However, when the circumstances are inappropriate for critical analysing thinking, the quick test allows an immediate reply.

Despite the limited decision capacity, thanks to recognition-primed mechanisms, in most of the occasions correct decisions are made by firefighting managers. Time limit precludes

27 Zoltayné Paprika, Z. Döntésemélet; Alinea Kiadó, Budapest, 2002 ISBN 9638630612

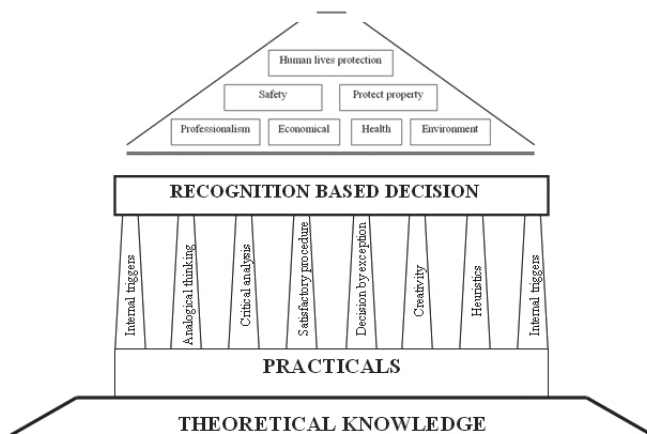
28 Tversky, A. & Kahneman, D.: Judgment under uncertainty: heuristics and biases; Science, vol. 185, pp. 1124-1131 (1974)

29 Lichtenstein, S. & Fischhoff, B.: Do those who know more also know more about how much they know? Organizational Behaviour and Human Performance, Vol. 20. 159-183., 1977

30 Zoltayné Paprika, Z. Döntésemélet; Alinea Kiadó, Budapest, 2002, ISBN 9638630612

the possibility for the firefighting manager to carry out analyses necessary for the classic model; therefore, the selection of the optimal possibility is objectively not attainable by the decision-maker. The decision-maker is not striving to achieve ideal results, as a response to the difficulties of collecting information and reducing costs in relation, but depending on the circumstances, he is satisfied with its satisfactory solution.

**Figure 5.** • *Complex model of decision-making of firefighting managers in emergencies.*



SOURCE: AUTHOR

By reducing the time available for decision-making and for maintaining decision-making capacity, a firefighting manager applies the management (decision-making) method based on exceptions in numerous situations. Its essence is that several moments of interventions proceed protocol-like, thus they need not be controlled all the time; on the other hand, not all the phases of the processes require direct management decision.

During the study of creativity, the author has concluded that there is no feature characteristic of the working circumstances of firefighting managers that would not be advantageous to perform efficient work in a VUCA environment. Therefore, it is sure that the creative capabilities of firefighting managers can be explicitly advantageous to facilitate the professionally correct decisions on firefighting and rescue tasks even if a significant part of the characteristics of innovativeness does not favour the performance of an everyday work free of interventions with respect to firefighting managers.

Heuristics are not random-like errors or specific distortions facilitating our everyday activities. These are the results of simplifying mechanisms, through which decision-makers can make difficult tasks manageable for themselves. Besides the benefits of heuristics, the greatest challenge for a firefighting manager can mean the inherent erroneous distortions, which surely often help, but their uncritical acceptance, in certain cases, can end up in fatal dangers. The declared objective and sense of the decisions of firefighting managers is the efficient implemen-

tation of emergency interventions. It is symbolized by the principles of firefighting with structured division, on the top of which we clearly find the saving of human lives.

Firefighting managers certainly have less time to make their decisions compared to the time interval of classic decisions, so their decision mechanism is strongly based on recognition procedures due to the peculiar environment (VUCA), and the limited processing possibility of simultaneous pieces of information. The competence of firefighters is based on the unity of theoretical knowledge and practical experience. Building on practical experience, the different mechanisms like analogical thinking, critical analysis, satisfactory procedure, decisions based on exceptions, creativity and heuristics, together with the internal triggers, hold as pillars and make recognition-primed decision procedure of firefighting managers operational. The author illustrates the above as a complex system of emergency decision-making of firefighting managers in figure 5.

## DESIGN CONSIDERATIONS AND RESULTS OF A LARGE INTEGRITY TRAINING PROGRAMME FOR CIVIL SERVANTS IN HUNGARY

*This article presents the design considerations for a training methodology for integrity education of civil servants in Hungary. During the design process I went beyond the widely used principal agent theory and the positivist approach to corruption prevention. I did it because I considered the principal agent concept in itself inadequate for understanding and preventing corruption in the given context where certain practices that clash with formal regulation and the principles of Western democratic integrity are widely tolerated and are spreading like memes. In such organizational contexts, prevalent in post-communist public sector organizations, the normative clash between formal regulation and informal culture can create a collective action problem situation. In order to solve the normative clash, besides the positivist anti-corruption instruments, an argumentative process for norm socialization is also necessary. Thus, my training method is built on a dual perspective: corruption analysis and integrity development are discussed both from a rational, positivist and a post-positivist, argumentative perspective. The positivist content is conveyed mainly through cognitive channels. The training method itself serves as a live model for the participants to grasp the argumentative process of norm and trust building still unfamiliar for most experts and civil servants in the region. The training workshops already implemented for more than 10,000 civil servants were also followed by an effectiveness assessment survey the results of which are also discussed in the paper.*



### 1. INTRODUCTION

Integrity management is aimed at the prevention of corruption by strengthening corruption resistance of public administration. Integrity means that the public organization operates according to democratic principles and effectively uses the powers and resources entrusted to it for the implementation of the officially accepted purposes and justified public interest.

Integrity approach to corruption prevention is relatively new in the Hungarian public administration. The decisive turn towards the integrity approach happened in the

spring of 2012 when the Government adopted the Public Administration's Corruption Prevention Program.<sup>1</sup> In December 2012, the Ministry of Public Administration and Justice, relying on the funds earmarked for the State Reform Operational Programme (SROP), launched a key project (with a budget of approx. 2.3 million euros) entitled "Prevention of Corruption and a Review of the Development of Public Administration". The central idea of the SROP-1.1.21 project is to strengthen the integrity of public administration organs and government officials. The project includes the following components: development of a Code of Public Service Ethics (adopted in 2013.), strengthening integrity management within public institutions through the training and appointment of integrity advisors (introduced in 2012 and 2013), adoption of whistleblowing protection (adopted in 2013), training of civil servants (since 2013) and dissemination of information.

The SROP project is implemented by the Ministry of Public Administration and Justice (MPAJ) and the National University of Public Service (NUPS). In my position of NUPS associate professor I designed the training methodologies with support of the anti-corruption experts of the MPAJ. I designed two training methodologies for civil servants: a one-day awareness raising training programme on public service ethics and integrity for civil servants, as well as a two-and-a-half-day long integrity management training programme for public service leaders. At the time of writing this article, nearly 9,000 staff and 800 leaders of public administration organizations have been trained with the use of these methodologies, and a training programme was also held for executives with leaders, like secretaries of state and state commissioners attending. Currently an additional 3,500 public servants and 400 leaders are scheduled to be trained. By the end of 2014 approximately 1,200 senior civil servants and 13,000 other civil servants, approximately 15 % of the Hungarian civil service, will have been trained with the use of this methodology.

These training methodologies have introduced a number of important professional and methodological innovations, which have been praised in the EU Anti-Corruption Report (2014) as "training curricula [that] promote innovative learning processes."<sup>2</sup> The methodology was also presented in English as part of an international *peer review* process, where prominent experts of the field rated it as an excellent educational programme that is also applicable in other countries of the region.

As the scope of this article does not allow a detailed discussion of the training methodology, only key elements will be highlighted in order to give an insight into the design process, the underpinning conceptual framework, the results and impacts, moreover, references will also be offered to other more detailed publications on the subject.

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1 Government resolution no. 1104/2012. (IV. 6.) on government actions against corruption

2 Annex on Hungary to the EU Anti-Corruption Report, Brussels, 3 February 2014, COM(2014) 38 final

## 2. KEY CONSIDERATIONS DURING THE METHODOLOGY DESIGN PROCESS

### 2.1 *The target group, the challenge and my goal*

At the start of the methodology design the key question for me was to identify the appropriate learning objectives (cognitive, emotional and behavioral) and to set the adequate priorities. Time did not allow a detailed target group survey or thorough research to underpin the program. Nevertheless a few key characteristics of the target group were clear. The majority of potential participants:

- have relatively high level “technical professionalism”<sup>3</sup>
- live and work in a social and administrative environment tolerant of certain corrupt practices
- have been socialized in a strongly hierarchic culture operating with weak formal communication.

It was also clear that the prevailing culture, patterns of thinking and usage of language blur the boundaries between right and wrong in relation to corrupt practices, and offer ample room for rationalization of practices that clash with the norms of democratic integrity. Public organizations are often overregulated but have no strategy for adjusting personal integrity of their staff and organizational operation, rules and culture.<sup>4</sup>

It was obvious that short programs cannot make major changes. The key challenge I saw was to help participants to grasp the concept of organizational integrity and the viability of progress, i.e. to plant the seeds of commitment, and leave the rest for them, for later projects that aim to support them, to figure out strategies for their own contexts.

### 2.2 *The theoretical underpinnings of the methodology*

Surveying approaches of other integrity training providers I saw two basic alternatives. Most integrity trainings limited their focus on public ethics and only a very few attempted to grasp the complexity of corruption and public integrity.<sup>5</sup> While public ethics was obviously a key component for me as well, I wanted develop a complex approach that includes the topics of corruption analysis and integrity development as well.

The result of my survey of training programs that included anti-corruption and integrity components showed that the key underpinning conceptual framework was the pric-

3 In most cases they have adequate level of education, high level technical skills to meet the operational and technical challenges in their work. Technical professionalism means professionalism in the positivist concept. Technical is emphasized here as later the positivist vs. post positivist approach will be discussed. I will argue that post-positivist approaches will also be needed for effective corruption prevention. Thus, it is important to give insight for civil servants into post-positivist concepts and instruments.

4 This proposition is supported by the latest research results Integrity Survey of the State Audit Office, 2013. Source: Pulay, Gyula: Preventing Corruption by Strengthening Organizational Integrity. *Public Finance Quarterly*. 2014./2. pp.133-149.

5 E.g. Most best practices identified by OECD Anti-Corruption Network for Eastern and Central Europe, SIG-MA and OECD Network for Public Integrity in their survey made in 2013 are ethics trainings except for the Estonian experience.(Source: OECD, 2013, Ethics TRaining for Public Officials)

ipal-agent theory<sup>6</sup>. This had also been the theoretical foundation of the largest training programme executed in the post-communist region by FLDP and World Bank, supported by most renowned experts, like Klitgaard and McLean-Parks. While I do not want to challenge the relevance of the selfish perpetrator and the principal-agent theory for anti-corruption, I am convinced that in a context, like ours, where certain corrupt practices are widely spread practices rather than an isolated slip, it does not suffice for capturing the substance.<sup>7</sup>

I had two reasons to go beyond this widely applied framework. One reason was that it seemed obvious that in our case (similarly to many other countries in our region) corruption, defined by a western concept of democratic integrity, even in the case of active perpetrators, is a wider problem than merely selfish individual choice. Many corrupt practices are the products of cultural patterns that are continuously at work.<sup>8</sup> In this cultural context corrupt practices may be interpreted as memes (carrying cultural ideas), which spread rapidly,<sup>9</sup> and render corrupt practices into accepted patterns of behaviour. In such cases a normative clash exists between the formal rules and the informal practice and informal rules of the culture that tolerate corrupt practices.<sup>10</sup> Understanding the collective process is key to understanding the phenomenon.

The other reason for going beyond the principal agent theory was my deep belief that the overwhelming majority of civil servants enters the service with good intention and moral character and wants to do the right thing. Their problem is not selfishness but defencelessness. Faced with the above mentioned cultural clash, they often do not see any possibilities to resist the practices that are against their personal integrity. In such situations corruption or resistance are not simply a choice between right and wrong. Consequences are not so simple and obvious as in rule-obeying contexts, where corruption is sanctioned and integrity is rewarded. In such an environment, where integrity derived from democratic values can clash with the culture of the environment and the patterns of behaviour and actions that be-

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6 Principal-agent theory is an important framework of analysis in political science and economics. The principal-agent problem arises when the principal and the agent have different interests and the selfish agent, under inadequately formulated rules, makes a decision that maximizes his personal benefit but it is not aligned with the principal's interest. Characteristics of the situation include conflict of interest, asymmetric information (information that may be withheld from the principal), and ethical risk (benefit is obtained by the agent without being liable for the damage caused).

7 Persson, Anna-Bo Rothstein and Jan Teorell, 2013: Why Anticorruption Reforms Fail—Systemic Corruption as a Collective Action Problem. *Governance: An International Journal of Policy, Administration, and Institutions*, Vol. 26, No. 3, July 2013 (pp. 449–471).

8 Six and Lawton base their theory on cases from developing countries but in this aspect discussed here, there are important similarities. Six, F. – Lawton, A. (2013): Towards a Theory of Integrity Systems: a Configurational Approach. *International Review of Administrative Sciences*. 2013 79, p. 639.

9 I explain this in more depth in more depths in English in Pallai, Katalin.-Kis, Norbert., 2014 and in Hungarian in Pallai, K. 2014: Pallai, 2014b: Pallai, K- Kis, N. 2014: „Towards integrity”. Integrity Education and Research at the National Public Service University. *Public Finance Quarterly*. 2014. No. 2. 149-164. and with even more detailed explanation in Hungarian in Pallai, Katalin 2014: Bevezető gondolatok a közigazgatási integritás és integritás menedzsment témájához. *Pro Publico Bono – Magyar Közigazgatás*. 2014./ 1. p. 181-194.

10 Finnemore, Martha and Kathryn Sikkink, 1998: International Norm Dynamics and Political Change. *International Organization* 52, 4, Autumn 1998, pp. 887–917

long to it, an honest civil servant confronts difficult choices. When in such a situation an individual attempts to break free from the cultural pattern of the environment and acts in accordance with the principles of integrity, he/she faces such risks that the majority of the actors have no means to undertake. In most cases, under pressure from the environment, individuals will feel vulnerable and will, although with aversion, drift into the practices which they find unacceptable. Research has shown that the situation will remain unchanged even where the majority, in principle, disapproves the established practices, and consider them harmful. Most individuals will remain unwilling or unable to bear the personal cost of resistance.<sup>11</sup> In many cases, resistance will not even present itself as an alternative on the personal cognitive horizon of the individual.

In such an environment we need to re-conceptualise the situation. The conceptualization of collective action problem has more explanatory power than the principal agent theory. The collective action problem implies that it is difficult to undertake the right action until the individual can assume that others will also take the right path and there should be no concern of taking individual risk.<sup>12</sup> In this conceptual framework, the solution depends not only on taking individual moral responsibility, but also on mutual interpersonal expectations, assumptions and trust. The solution to the collective action problem is beyond the technical solutions of rules and sanction envisioned in the positivist framework. A strong discursive component is also needed, post-positivist argumentative practices to impact on social and organizational processes of perception, mutual expectations, trust and personal beliefs about possibilities. Such argumentative processes can change the informal norms, and attitudes, and lead to greater coherence of formal and informal rules and rewards.<sup>13</sup>

This conclusion appears to be supported by the findings of detailed research on anti-corruption policies in the post-communist region, published in the 2010 special issue of *Global Crime*, according to which broad social support for anti-corruption efforts played a key role in the cases where positive changes were implemented.<sup>14</sup> Such positive processes required the impact of an epistemic community capable of continuously shaping social narratives and norms.<sup>15</sup>

Based on these theoretical conclusions I applied two conceptual frameworks to underpin my methodology: one based on the principal-agent theory and the other on the collective action problem. During the course we discuss the topic at two levels: one is the level of rational interests and rational (positivist) analysis of transactions. This is the positivist dialogue on rules, in-

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11 Rothstein, B. (2011a): Anti-Corruption: The Indirect 'Big Bang' Approach. *Review of International Political Economy*. 18 (2) pp. 228–250.

12 Persson, A. – Rothstein, R. – Teorell, T. (2013): Why Anticorruption Reforms Fail. Systemic Corruption as a Collective Action Problem. *Governance: An International Journal of Policy, Administration, and Institutions*, Vol. 26, No. 3, July 2013, pp. 449–471.

13 Fischer, Frank-Herbert Gottweis: *The Argumentative Turn Revisited: Public Policy as Communicative Practice*. Durham-London. Duke UP

14 Moroff, H. – Schmidt-Pfister, D. (2010): Anti-corruption Movements, Mechanisms, and Machines – an Introduction. *Global Crime*. Vol. 11, No. 2, May 2010, pp. 89–98., p. 97.

15 Moroff, H. – Schmidt-Pfister, D. (2010): Anti-corruption Movements, Mechanisms, and Machines – an Introduction. *Global Crime*. Vol. 11, No. 2, May 2010, pp. 89–98.

centives and sanctions, i.e. the rule-based component of integrity management. The other is the level of norm socialization within society and organizations. This is the post-positivist approach that explores the argumentative process and the instruments it implies. This second focus on norm socialization and the discursive techniques leads to a deeper understanding of the value-based components of integrity management. This is the new component in my design compared to the earlier courses that I had surveyed before my design.

### ***2.3 The learning objectives***

The short review of the theoretical underpinnings above shows that the challenges I identified were complex: they included breaching of formal rules, clash of formal and informal norms and sanctions, collective action problem, interpersonal expectations and trust.

There was one more challenge not mentioned yet. In the social setting that is tolerant of corruption and where various forms of rationalization are widespread, the prevailing social interpretations of democracy, corruption and anti-corruption blur the boundaries necessary for substantive dialogue on the subject. In such an environment, without the reconceptualisation of key concepts, it is impossible to create a frame of reference in which shared understanding of such concepts of democracy, corruption, anti-corruption and integrity can be developed that paves the way for the introduction of the approach to building democratic integrity. In this situation I identified four objectives:

- to develop shared working definitions for key concepts within the group, and construct a conceptual framework that allows the culture and concept of democratic public integrity to be passed on,
- to pass on the basics required for integrity development: the relationships between the required organisational competences, values, ethics and rules,
- to change participants' cultural responses tolerant of corruption, since passing on the professional substance could hardly be beneficial without relearning (reevaluation) and changing expectations,
- to involve participants in an argumentative process where they can experience the power of the group in changing perceptions and expectation of peers, and building mutual trust and engagement.

### ***2.4 The method and approach***

The method to implement the four objectives was a professional training programme based on an experiential methodology to convey serious professional content. Through the planned activities the trainer creates a communicative space in which spontaneous reflections may be made, personal narratives shared, situations and critical incidents discussed, and when necessary the conceptual structuring or restructuring by the trainer may take place. While the aim is complex, the methodology ensures that participants experience the training as a reflective and problem solving flow of dialogue that always remains specific, and takes place at a level comprehensible and comfortable for them. Also, unlike in the form of longer, fron-

tal cognitive blocks, even new ideas introduced by the trainer are incorporated as summaries, definitions and charts that structure the discourse and, together with the flip charts recording of the joint thinking process, shape and develop the group's knowledge and its attitude to the subject.

It is also important that key learning is focused on a limited number of elements that are gradually introduced to the dialogue: three shared working definitions are developed for democracy, corruption and integrity, and two metaphors and four visual schemes convey the key concepts and interdependencies and a mind map summarizes the content. This concise verbal and visual language captures the key learning points, and makes it comprehensible and memorable.

**Figure 1 •** *The the work and the wall with the group memory*



These definitions, methaphores and schemes are recorded on flipcharts together with records of the process that engendered them. During the training the flipcharts are posted on the walls. They are reminders of the common journey. The wall is the group memory that helps participants consolidate the relevant knowldege, remember the connected emotions and reflections, and build them all together to support a change in attitude.

With this method, instead of a traditional “teaching space”, an argumentative/interpretative space is created, in which participants connect through discourse to the group and recreate their reality together.<sup>16</sup> This process points far beyond unidirectional knowledge transfer. It starts a creative process which also has an effect on the emotions and attitudes towards the substance. This is how the double perspective discussed in the theoretical part can be implemented, as corruption analysis and integrity development is discussed during the course both from a rational, positivist and post-positivist, argumentative perspective.

In sum, the training includes positivist methods of analysis and propagates interventions elaborated on the basis of positivist public administration. At the same time many experience-based components are built into the learning process that are aimed at letting grasp the argumentative process and instruments, approaches and methods of post-positivist political science. These two are complementing each other: (1) the rational public policy and organisational answers to objective problems (such as infringements, fraud, etc.) provided by the positivist approaches, and (2) the argumentative tools such as the interpretation and re-interpretation of verbal constructs, joint problem definition and conceptualisation, which are suitable to enable the emergence of a discursive process linking the individual and the organization or the wider community, as well as the development of possible solutions and the mutual trust are required for change.

As early as during the design it was obvious that for participants it would be a new encounter to surpass the rational, positivist frame and enter in the world of post-positivist concepts and instruments, not yet familiar even for most experts in our region. The training was designed as an argumentative process itself because content conveyed on cognitive level would have been surely not enough. The method secures that participants collect their own experience of the (for many yet) unfamiliar process of norm and trust building. For this purpose an open, interdependent communicative space was created in the training room with a flow of creative dialogue entailing components aimed at initiating learning on cognitive, emotional and behavioural level.

### ***2.5 The cognitive content of the course***

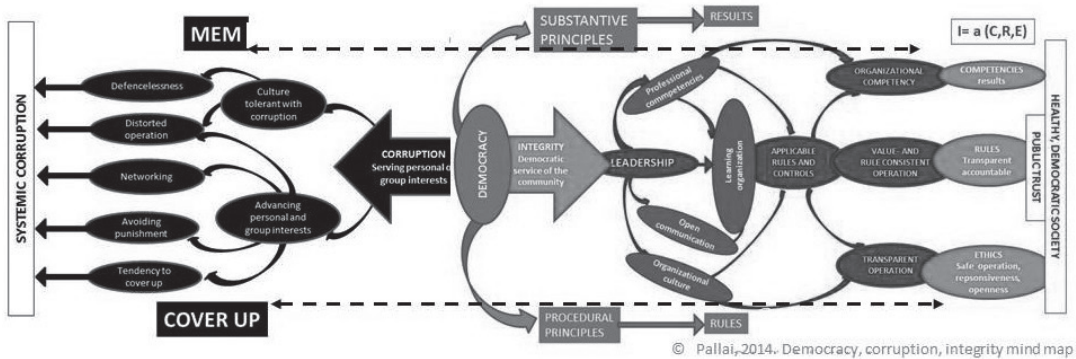
Although participants experience the flow of creative dialogue, the discursive process conveys a very tightly structured professional content. The content reshapes participants’ concepts of corruption and integrity starting from democratic values, and progresses from the analysis of ethical dilemmas to the development of ethical organizational culture, then, through the analysis of risks and integrity deficits, to the professional and organisational competences constituting the prerequisites for integrity, and to the systemic interrelations of components. Finally, it explains successful strategies and working systems to make the development of organisational integrity a viable alternative, reinforcing positive expectations. This is how an overall picture is created by the end of the training about ways to reinforce or-

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16 Fischer, Frank-Herbert Gottweis: *The Argumentative Turn Revisited: Public Policy as Communicative Practice*. Durham-London. Duke UP

organizational integrity. The cognitive content develops resolution patterns, while the discursive tools build commitment to take responsibility and trust that resolution is possible.

**Figure 2 •** The cognitive content of the course summarized in the form of a mind map



## 2.6 The impact on attitudes

In addition to changing attitudes to corruption and integrity development, two things happen in the course of the training which are of significance to developing integrity. On the one hand, participants experience how a constructive discursive environment works, and through the trainer’s behaviour, they are offered a pattern for building an interdependent setting.<sup>17</sup> This enables them to experience a pattern or organisational culture and leadership that can effectively support organizational integrity. This very system of mutual accountability, which is not only vertical but essentially horizontal and provides the basis for *Sampford’s* famous bird’s nest metaphor of integrity.<sup>18</sup> In the bird’s nest, twigs and cementing materials that may be individually weak are bound together so that they are strong enough to protect the fragile egg. According to the metaphor, the integrity system is also constructed in this way from a large number of elements, the cooperation and solidarity of which enables the fragile idea of integrity to be built and protected. Being an interdependent setting, the nest focuses attention to the fact that power can be derived, in addition to formal rules, from the expectations, commitment and cooperation of the actors. Reinforcing horizontal accountability relations is a means of resolving the collective action problem.

17 Pallai, K. (2013): Kooperatív tárgyalás és konfliktuskezelés. Jegyzet. (Cooperative Negotiation and Conflict Management. Notes.) Nemzeti Közszoigálati Egyetem. Vezetőképző és Továbbképzési Intézet. Budapest. (download: <http://www.pallai.hu/wp-content/uploads/2010/11/Pallai-Kooperativ-targyalas-es-konfliktuskezelés.pdf>) pp.56-62.

18 Sampford, C. – Smith, R. – Brown, A. J. (2005): From Greek Temple to Bird’s Nest: Towards A Theory of Coherence and Mutual Accountability for National Integrity Systems. *Australian Journal of Public Administration*. 64(2), pp. 96–108.

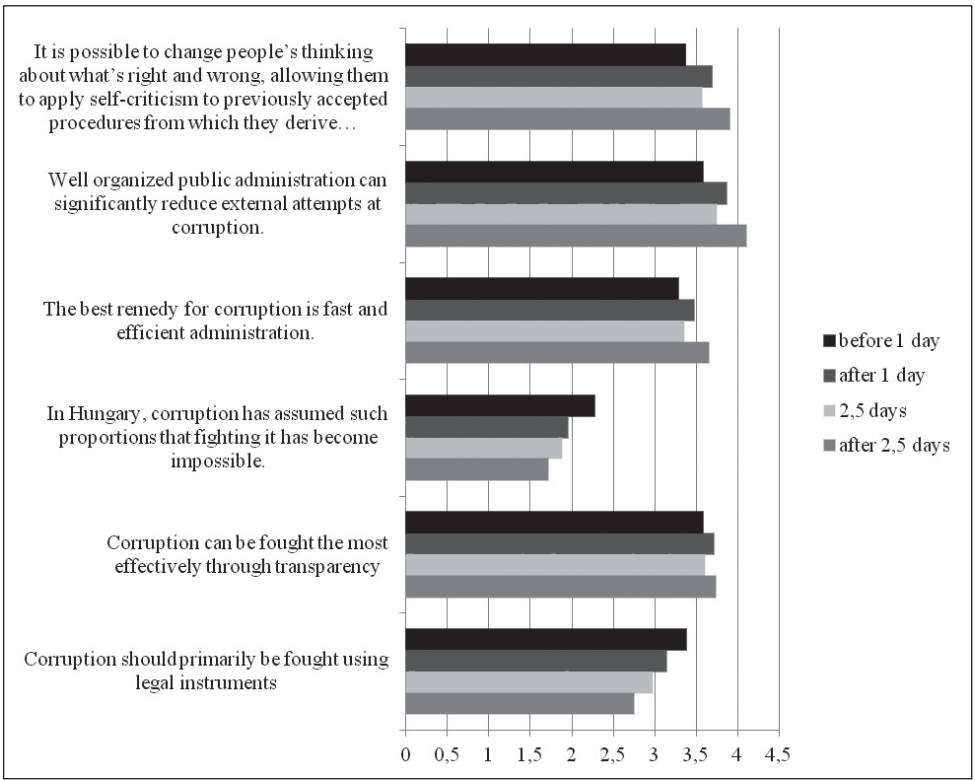
The experience and model of collaboration provided in the training is particularly important to participants who were not socialised in such an organisational culture, because without experiencing, it is not even possible to imagine and understand such a system, let alone believe in the possibility of its existence. We all know, that without the sense of viability, knowledge transferred will rapidly dissolve.

Naturally, a brief training programme will serve as a first step only. However, if it is followed by similar training programmes within the organisation where staff experiences a similar process together, the professional competence and a responsible and cooperative community that mutually reinforces the positive expectations of its members may develop simultaneously to provide the core of integrity development.

### ***2.7 Research to evaluate the effectiveness of the training methodology***

The effectiveness of the methodology in terms of changing knowledge, interpretations, expectations and attitudes has been demonstrated in a follow-up research to the training programme (*see chart 1*). A key innovation in training design was the abandonment of the common practice of satisfaction questionnaires, which hardly provide any information on effectiveness. Instead, an effectiveness assessment developed with *Dr. Péter Zsolt* was used, an innovation that has since been adopted by a number of organisations. At the beginning and at the end of the training, participants completed the same questionnaire, which essentially measures their attitudes. The questionnaire has many questions, with a couple of important ones among them. It uses a 5-point Likert scale for statements as follows: 5 – strongly agree, 4 – agree, 3 – neutral, 2 – disagree, 1 – strongly disagree. Importantly, the questionnaire does not include any questions to which explicit answers are given in the course of the training, because the focus of the survey is not about how well participants can remember the information provided. Chart 1 shows the average score for the most important question before and after training. An analysis of over 15,000 questionnaires shows that the training

had a positive impact on all of the dimensions under review. The chart shows only the results in the key dimensions where we targeted change.



1 Sharon Daloz Parks, 2005: *Leadership Can Be Taught. A Bold Approach for a Complex World.* Harvard Business School Press. MA: Boston. p. 14.

SOURCE: DATA PROCESSING STUDY BY PÉTER ZSOLT

The chart shows average values; the results of the work of about 40 trainers with public servants arriving from various regions of the country, representing a variety of responsibilities. Obviously, the results of groups and trainers show considerable deviation. In many groups, the extent of changes was significantly greater. (Detailed findings will be published later.)

Lilla Bauer

## PUBLIC EDUCATION POLICY IN THE YEARS OF TRANSITION

### Some remarks (comments) on the centralization of the public education system in Hungary

*This study examines the challenges and failures of the discourse on the education policy-making process. Fully matured reforms are hampered by a lack of continuity and efficacy. Organizational constraints, such as a lack of institutional dialogue, can be observed behind many education policy failures. This paper explores the implications of applying discourse analysis to research projects in the field of education policy studies in order to illustrate how new insights can be gained through a discourse analytical approach. I seek to examine elements of the policy-making process, such as policy formation, implementation, and evaluation. Actions of the state are implemented through increasingly complex sets of institutions. Organisations and structures provide the framework in which policies are defined and policy decisions are made. I hope that my analysis will yield evidence for my hypothesis that decision-makers are not quite clear about the fact that the implementation of the government's objectives and public policy programs do not necessarily coincide.*

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#### 1. POINTS FOR PRACTITIONERS

Before a political decision, decision-makers must measure the government's capacity. Due to the radicalism of a political decision the government can lose the achievements of the earlier years. All governments have to learn to appreciate the previous governments' political efforts and to respect their results. It manifests in careful and considerate decisions. Finally, the more difficult and slower way in reaching consensus between the actors of the policy programme and the wider society will pay off in the long run. The most important capital of any government is their citizens' trust. The failure of under-prepared public policy reforms puts this trust at risk. Last but not least, without the necessary financial and human resources it is an unwise and ineffective decision to establish a huge institution.

## 2. INTRODUCTION

I attempt to examine how certain elements of the policy process work and the formation and implementation of one particular policy with the help of a discourse analytical approach. According to my hypothesis fully matured reforms are hampered by the lack of continuity and efficacy. Organizational constraints, such as a lack of institutional dialogue, can be observed behind many educational policy failures.

In Hungary today we are in the middle of a very committed education reform process but there are plenty of difficulties in the implementation and there have been vigorous protests among education experts, education professionals and in broader society, too.

Another hypothesis is that in the governmental decision, which has centralized the educational institutions in the hands of a maintenance central office – called Klebelsberg Institution Maintenance Centre (KLIK) –, the strong political-ideological content disproportionately dominated the real potency and capacity of the government.

The third assumption is that the stormy radicalism of the political-ideological content substantially damaged the previous governmental techniques and attitudes which were the results of the modernization of the public education system and the public administrative reforms. In other words, it was detrimental to the efficiency-conscious and planned policy processes, the manager techniques and participatory governance attitudes. These attitudes and management techniques, to increase the chance of social consensus at the widest level of society, involved more educational actors in decisions.

## 3. METHODOLOGY

I would like to apply the argumentative, narrative, and cultural approaches to public policy analysis, to describe the 2010 – present period of public education policy studies, and in particular, the circumstances and functional anomalies of the foundation of the Klebelsberg Institution Maintenance Centre.

First, I would like to list some of the best-known versions of discourse analysis. I would like to list the reasons why I consider this theoretical approach very productive. I mainly use Marton Szabo's work in presenting public policy discourse analysis.<sup>1</sup> What are the characteristics of democratic and discourse praxis of the implementation and analysis of public policy programs? Public and common interpretation, which had four schools by the end of the 20<sup>th</sup> century, plays a key role in it. The argumentative analysis examines the actors' refuting or supporting the public policy measures and how they argue for the most likely truth. Narrative public policy analysis examines how the actors interpret the events and explore their internal relationships along the temporal runoff. Cultural public policy studies reveal what cultural circumstances of the process of implementation are determining. Ethnographic

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<sup>1</sup> Szabó Márton: Közpolitikai diskurzuselemzés, Working Papers in Political Science, 2012/7. MTA TK Politikatudományi Intézet

public policy analysis examines the public policy programme in a concrete and unique way focused on the interpretation. The four common trends endeavor to show that in the implementation of public policy programs discourse coalition is a decisive factor, which might be formed by the stakeholders in public debates and discussions. Choosing the method of discourse analysis does not mean that I regard this method better and more productive than the other 'social engineering' policy process analyzing methods. I would probably also follow the golden mean, the "aurea mediokritas". There are four reasons why the narrative and the cultural-ethnographic discourse analysis seem more useful and logical to me. These are the following:

- One of which is very obvious: the political-administrative KLIK as a public program, and as an organization, was created recently.
- Fully-institutional and human resource capacity is not completed yet; therefore, it should not be assessed as a closed process, as a developed organization.
- The author has obtained her experience as an employee of the organization (as Head of Department of a school district of Budapest).
- The narrative approach will include a guided-interview evaluation – the author made interviews with colleagues in the same positions (school-district director).

In addition to the four reasons the author believes that there are political and ideological reasons behind the radical centralization and the establishment of KLIK instead of realistic government-administrative reasons. The maintaining center's name – Kuno Klebelsberg – suggests the same. Therefore, a short historical reference will also be included in this study.

### ***3.1. Methods and aspects of discourse analysis***

#### *3.1.1 The narrative public policy*

Narrative public policy analysis seeks to uncover how the actors speak at public political events in a time of political structure. The interpretation of public policy programs is important in the process of discussion of the events, but on the basis of the discussion which is also the way we tell stories on the dispute later. The narrative public policy analysis is sensitive to the reality and figments at the same time, to subjective evaluations of the facts and the facts themselves. As much as our decisions are defined by our affections, which facts arouse in us, they are also defined by the facts themselves. Behind the political decisions are sufficiently favorable cases, credible fiscal and monetary efficiency arguments, but the ideas and visions of power can not be sufficiently taken into account. Therefore, you should listen to the story of the preparation and of the implementation of the program, not only to the economic calculations and reports. The ability to name (label) something is a way of having power over it. To articulate, to name, to tell: these situations shed light on the person performing the action, the power of individuals, dominance, the person who suffered interference, the subor-

dination of people, and the vulnerability. A „Linguist merely employs systematically a cognitive faculty that is already in place for everyday linguistics functioning.”<sup>2</sup>

As we are talking about the subject of our research it already covers the subject of our evaluations, expectations and visions. Our speech also designates our headroom actually, foreshadowing motivations and options for action. Gadamer writes about the language of scientific research, in relation to linguistics: „The understanding and interpretation of texts is not merely a concern of science, but is obviously part of the total human experience of the world.”<sup>3</sup>

The narrative has five elements: “the act, the crime, the location, the course of action and intention – agent, act, scene, agency, purpose] – (who, what, where, how and why).”<sup>4</sup>

The story structured this way is also structured reality, which shows the actors what are the interventions and actions in the present context – from a particular aspect. It also shows the possibilities for the future: “The narrative form is better than anything else to depict how a programme will work and what changes the condition will achieve. That is the information the decision-makers are interested in before making decisions about resources.”<sup>5</sup>

Márton Szabó<sup>6</sup> draws our attention to the narrative coherence and creative power of consistency. Indeed, I have to admit that even as decision-makers (the author as a counsellor of the Ministerial Cabinet has seen and experienced the decision-making situation and possibilities) or as a bureaucrat implementing public policy decisions, or as a parent who is interested in education, it is difficult or impossible to see the process of some educational public policy programs as a coherent and consistent reality.

Emery Roe<sup>7</sup> points out that public policy processes are complex, polarized and have uncertain outcomes, which means that they lack selection and coherence needed to make good choices and successful action. The narrative should be able to perform this simplification.

Actually, the policy advisors and consultants of Cabinets are masters of public policy narrative: their job is to give a short essence of the most relevant problems. It is necessary for decision makers if they need to create programs, to know about the current status of processing, the outcome, or the failure of program. “A coherent narrative offers a credible explanation, even when external diversity of conditions is indefinite or it would be difficult to verify.”<sup>8</sup>

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2 Leonard Talmy, 2007. Lecture notes for ICLC, Krakow

3 Gadamer, H.G. (1975) Truth and method. London, Sheed and Ward.

4 Kaplan, Thomas 1993. Reading Policy Narratives: Beginnings, Middles and Ends. In Fischer, Frank – Forester, Frank (eds.): Argumentative Turn in Policy Analysis and Planning. Durham – London: Duke University Press. 178.p.

5 Kaplan, Thomas 2000. A közpolitika-elemzés narratív struktúrája (ford. Boda Zsolt). In: Szabó Márton – Kiss Balázs – Boda Zsolt (szerk.): Szövegváltozatok a politikára. Nyelv, szimbólum, retorika, diskurzus. Budapest: Universitas – Nemzeti Tankönyvkiadó. 559.p.

6 Szabó Márton: Közpolitikai diskurzuselemzés, Working Papers in Political Science, 2012/7. MTA TK Politikatudományi Intézet, 13.p.

7 Roe, Emery (ed.) 1994. Narrative Policy Analysis: Theory and Practice. Durham –London: Duke University Press.

8 Boda Zsolt 1997. Narratív közpolitika-elemzés. In Szabó Márton (szerk.): Szövegvalóság. Írások a szimbolikus és diskurzív politikáról. Budapest: Scientia Humana. 127.p.

### 3.1.2 Cultural public policy

The cultural public policy analysis method spread in policy-science after Thomson-Schwarz<sup>9</sup> pointed to the differentiability of political culture. Among other things, it showed that social reality is not equally and objectively given facts – everyone interprets the facts somehow. This interpretation depends on a number of circumstances; for example, on interests as well. However, these conditions are not objective and not accurately measurable. In fact, they are only discovered through the actions. They only get their meaning in the mix of unaccountably many factors, the process of implementation or action. Clifford Geertz writes “man is an animal who depends on the web of meanings created by himself. I consider this net culture, and I consider its analysis precisely because of this a law not seeking experimental science, but an interpretative science unforgivingly hold.”<sup>10</sup>

Geertz refers to the understanding of cultural factors. That our thinking, our actions are not only motivated by the reality of existing knowledge, but by our whole being as we understand and interpret the reality of the „here and being” (Dasein) defined.

We need to refer to Gadamer at this point, who fixes the principles of his philosophy in a view of reality, Heidegger’s Dasein (being present in) the category of departure and destination point. As Gadamer writes: “The temporal analysis of the human being according to Heidegger[...] convincingly demonstrated that understanding is not the subject of one behavior mode, but a mode of existence in this present existence itself.”<sup>11</sup>

That is, knowledge itself is existence. Gadamer goes over to the language and dialogicity. In the focus of Gadamer’s hermeneutics is Gespräch (talk): not Rede (speech) as an utterance, but Unterhaltung (conversation), as dialog. The dialogue interpretation is related interpretations, without a beginning or an end: it happens all the time. Therefore, it is never ready. Such continuous interpretation and dialogue with others interpreted public policy as a discursive reality. However, the reality is still in its concreteness, special and unique status, given the culture, and we are also uniquely part of this and leaders as well. This is also a time limitation and freedom as well. In ordinary language, says Habermas, open structure is: no guarantee of perfect order and clarity, but this advantage is not the handicap, it is clear what he did in Gadamer’s hermeneutics, because “we’re never one grammar’s captives.”<sup>12</sup>

Szabó emphasizes opportunities which public cultural policy analysis opens. While the objectivist-positivist analysts assumed a uniform culture and rationality, the cultural discourse analyst knows that there is none. With that realization public policy analysis can be made more sophisticated and thus more successful: already more than reading, the researchers’ calculated rationality. “The theory of political cultures [...] is about that the apperceptive schemes are often so incommensurable, the parties interested in the decision speak so many “different lan-

9 Schwartz, Michael – Thompson, Michael (eds.) 1990. *Divided We Stand. Redefining Politics, Technology and Social Choice*. New York: Harvester Wheatsheaf Press.

10 Geertz, Clifford 1994. Sűrű leírás. Út a kultúra értelmező elméletéhez. In Clifford Geertz: *Az értelmezés hatalma* (ford. Berényi Gábor). Budapest: Századvég Kiadó. 170–199.

11 H. G. Gadamer: *Igazság és módszer*, Gondolat, Budapest, 1984. 12.p.

12 J. Habermas: *A társadalomtudományok logikája* (Atlantisz, 1994), 208.p.

gauges “that the chance of compromise is small, in addition, in case of a number of large-scale or system conversion measures progressive realization is de facto not conceivable.”<sup>13</sup>

### 3.1.3 Ethnographic analysis of public policy

Improving the lessons learned from cultural public policy analysis, we arrive at the central issues of ethnographic public policy analysis, says Martin Szabo. The main tenet is that all organizations are specifically organized, work locally and manage individual devices; in addition, the dominant elements of the organization’s participants interpret their own operations. Almost every author of this trend emphasizes long-term research in the field of organizational analysis. An ethnographic researcher is involved in the life of the community, observing it directly and permanently, if necessary, even for years. The ethnographic public policy analysis reveals how a specific public policy programme in a specific community is achieved through the involvement of actors with very different status through long years. That is usually not based on some abstract “thin feature”, but on there and then, given the local circumstances in their complexity.

“Beyond the fact that organizational ethnography can show the busy life of organizations, it also allows you to clarify two further aspects for which other methods, such as survey methods, are less suitable: (1) the operation of the organizations’ “hidden” dimensions (two) players in the context of relationships.”<sup>14</sup>

Organizational ethnography researchers are not only permanently present in the life of the community, but also propose ways to make the study programme better, since they not only observe, but also participate. “These proposals are quite powerful, because they are born in collaboration with the local participants (involving them in the process), researchers attend to the members’ inquiries about the details (accordingly inform them), and it also allows for research proposals to be born through the repeated participation (and it should not be a far-fetched theme set by the leaders or the principal investigator’s discretion).”<sup>15</sup>

## 4. THE ISSUE

### **4.1 Public Policy Situation – elimination of a decentralized education system, establishment of the Klebelsberg Institution Maintenance Center (KLIK)**

On 1th of January, 2013 the Hungarian public education went on to work in a completely new structure. Between 1990 and 2013 the educational institutions were maintained by local governments. It was a totally decentralized system. The way how it worked was: the lo-

13 Boda Zsolt 1997. Narratív közpolitika-elemzés. In Szabó Márton (szerk.): Szövegvalóság. Írások a szimbolikus és diszkurzív politikáról. Budapest: Scientia Humana. 123.p.

14 Yanow, Dvora – Ybema, Sierk – van Hulst, Merlijn 2012. Practicing Organizational Ethnography. In Gillian Symon – Catherine Cassell (eds.): The Practice of Qualitative Organizational Research. Core Methods and Current Challenges. London: Sage, 7. p.

15 Neyland, Daniel 2008. Organizational Ethnography. London: Sage Publications, 2.p.

cal authorities received money from the state budget for their duties for the free and compulsory public education in accordance with the number of students they had. However, this amount was not sufficient to maintain the schools, buildings, pay the salaries of teachers and cover teaching materials. Therefore, the maintaining school municipality supplemented the money received from the state from its own budget and from income from the self-management. Thus, there were large differences between the operating standards of schools in various regions of the country.

On 1th of January, 2013 the state left the maintenance of the school buildings in the hands of the local governments without providing any central funds. Providing school apparatus (desks, printers, copiers, computers) was also the responsibility of the municipality, but the teachers' salaries were paid by the state, and the pedagogical work, the development of the methodology, illustrative material for lessons, field trips, academic competitions, sports competitions were also financed the state.

The establishment of the Klebelsberg Institution Maintenance Center took away any possibility of education management from the local government and achieved a total top-down model of governance. My assertion is that the center's name clearly reflects the political will that the government did not want to involve the society in his decision and the professional public either. With a huge illocutionary force it decided the way in which the government handled the issue of the differences between schools. Indeed, it did not initiate any social and professional discussion on how to deal with the quality differences between schools. Its decision was not preceded by a preliminary impact study, and you do not know whether that would be treated as a public policy programme set up by the Centre or in the public administration or the public education system side. There was no broad social or professional consensus behind the creation of the KLIK and controlling municipal schools by the center<sup>16</sup>

They have created a completely new structure that only has clear political goals, but the implementation has not had any concept. All capacity-chaining features of the new structure were changing daily and the functioning seemed an enigmatic decisions-chain to the public and the profession. Neither consensus after discussion of technical arguments, nor social consensus was behind these decisions.

#### ***4.2 Weaknesses in the public policy process of establishing and building the new system***

What steps have been left out or were fragmented in the process of centralization?

- I. The absence of political, professional and social consensus.
  - There was no consensus among policy makers in the government decision-making party whether all government schools should be taken into state maintenance or only those where the local governments do not have enough resources;

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16 [http://www.pedagogusok.hu/index.php?cikk=010421\\_vitak\\_a\\_kormanyparton\\_belul\\_is\\_az\\_iskolak\\_allamositasarol](http://www.pedagogusok.hu/index.php?cikk=010421_vitak_a_kormanyparton_belul_is_az_iskolak_allamositasarol), [http://eduline.hu/kozoktatas/2011/4/1/20110401\\_iskola\\_allamositas\\_orban\\_fidesz\\_vita](http://eduline.hu/kozoktatas/2011/4/1/20110401_iskola_allamositas_orban_fidesz_vita), <http://eduline.hu/cimke/Klebelsberg+Int%C3%A9zm%C3%A9nyfennart%C3%B3+K%C3%B6zpont>

- There was no consensus within the ruling party’s decision-making on how the situation of local governments will be affected by the centralization;
  - Sharp disputes between the government and the opposition did not finalize an agreement.
- II. The shortcomings of the decision-making phases.
- Raising funds sufficient to assess the establishment of new institutions (centers, school districts), school maintenance and calculating the total cost of teachers’ salaries;
  - Planning the vertical structure of the resulting institutional structure of public education hierarchy management for institutional capacity;
  - The horizontal structure of the resulting institutional structures, in particular at the regional level;
- III. During the implementation process of the strategy and process the claims arising under sections: capacity change – monitoring
- IV. A survey of the provision of human resources: job – proficiency – number of status coherence.

The author of this paper was one of the directors of 198 school districts. Her intention was to compare her own school district’s struggles to the other 197 school district director’s experience. Only eight people responded to this request. Two people excused themselves because of the lack of time, one person refused the issues indignantly and 5 people responded.

The surprising result reflects the uncertainty in the same professional circles, what is more: the fears. The secrecy, news blackout, and complete information retention are natural concomitants of the activities behind which there was no consensus.<sup>17</sup>

The five people gave the same answers:

- school district infrastructural deficiencies: building, equipment, telephone, computer expertise in staff;
- unclear responsibilities between the school district and the center directors and school district directors and school principals;
- the impotence of the central management;
- unplanned professional and financial tasks;
- fears of publicity and open benchmarking of individual solutions.

The State Secretariat expected the resolution of the issues raised by the parents and the schoolmasters from the KLIK-Center but the solutions or resources and decision-making powers were not given to the President of the KLIK-Center or – who knows –, the Chairman of the Centre was unsuitable to direct with proper authorizations. The problems of educational administrations were played down or denied.<sup>18</sup> The teachers, schoolmasters, education experts, parents, and of course the opposition parties electronically and through many

<sup>17</sup> <http://hirlevel.egov.hu/2013/02/13/kozel-sincs-minden-rendben-az-allami-kezbe-kerult-iskolakban/>, <http://www.hirklikk.hu/facebook/page/article.php?id=220204>, <http://oktapolcafe.hu/tag/allamositas/>

<sup>18</sup> <http://www.fidesz.hu/hirek/2014-03-20/jelentos-valtozasok-tortentek-az-oktatasban-az-elmult-negy-evben/>

demonstrations, professional consultations, and meetings protested against the dysfunctionality of KLIK and the deterioration of the quality of education.<sup>19</sup>

Based on this it seems that we keep nothing from among the governmental experiences, tools, and attitudes of the governments between 1990 to 2010.

## 5. WHAT WE HAD LEARNED FROM MANAGERIALISM AND GOOD GOVERNANCE

It seems that all government knowledge that the New Public Management and Good Governance toolkit recognized between 1990 and 2010 have been forgotten. In 2010 the FIDESZ-KDNP government came to power and saw the opportunity for the New Weberian model: strengthen the state and public administration system with using the toolkit of NPM and the attitude of Good Governance. In this study a detailed presentation of these models is not possible but, according to the opinions of numerous analytical researchers, both models have certain virtues.

The virtues of NPM worth retaining are market-efficiency, which technique applied in administrative processes transforms the inflexibility and difficulty of traditional public administration system.<sup>20</sup> So the fact that the decision maker assesses how to budget the government resources to derive the best results from a programme in the shortest time.

„Most developing countries are adopting the model without considering the socio-economic and political implications. Perhaps because of their vulnerable position at the international level, these countries are being forced to adopt the model. Although there is an obsession with the experiments with market solutions, still there is a long way to go to replace the traditional model. In some cases, some precepts of the traditional model might help to restore order in the administrative system, i.e., getting the fundamental rights – a prerequisite for economic growth and development.” – established by M. Ehsan and F. Nazogirin in the conclusion of their study about the vision, expectation and practice of NPM in developing countries.<sup>21</sup>

Nevertheless, the NPM was called to life by real-life needs. A traditional administration was not able to handle a number of challenges that characterized the end of the 20th century.

Accordingly, the NPM emerged in response to a number of environmental challenges which governments everywhere have faced in the past twenty years.<sup>22</sup> For example: large, expensive public sectors with increasing efficiency. The traditional Public Administration was not able to

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19 <http://www.tanszabadsag.hu/blog/2014/01/>

20 Hood, Christopher. 1991. "A Public Management for All Seasons?", *Public Administration*, Volume 69, No.1. Hughes, O. E. 1998. *Public Management and Administration*. London, Macmillan. Pollitt, C. 1990. *Managerialism and Public Services: The Anglo-American Experiences*. Oxford: Basil Blackwell. Pollitt, C. 1998. "Managerialism Revisited" in Peters, B. G. and D. J. Savoie (eds.) *Taking Stock: Assessing Public Sector Reforms*. Montreal: McGill-Queen's University Press.

21 MOHAMMAD EHSAN, FARZANA NAZORIGIN: IDEAS AND PRACTICE OF NEW PUBLIC MANAGEMENT: LESSONS FOR DEVELOPING COUNTRIES *Asian Affairs*, Vol. 25, No. 3 :30-48, July-September, 2003.

22 Sarker, A. E. and R. D. Pathak. 2000. "New Public Management: An Analytical Review", *Productivity*, Volume 41, Number 1. 57.p.

deal with technological innovations, so the development of information technology was needed. Increasing efficiency in resource management is also expected as economic recession and competition simply demand it. In the competitive world people are demanding quality public services. They are now keen on comparing the services of all organizations.<sup>23</sup>

New Governance calls for the involvement of the wider sections of society in decisions. Adam Rixner calls this governmental model as builder of social construction, the main instrument of building and strengthening the social solidarity. Good governance has major characteristics which are the criteria of real and working democracy. It is participatory, consensus-oriented, accountable, transparent, responsive, effective and efficient, equitable and inclusive and follows the rule of law. It assures that corruption is minimized, the views of minorities are taken into account and that the voices of the most vulnerable in society are heard in decision-making. It is also responsive to the present and future needs of society.

### *5.1 The lack of middle level*

Attila Agh wrote in his study in 2004 that the traditional disease of Hungarian social structure is the “missing middle”.<sup>24</sup> The “good governance” model tried to weaken the overdominant role of the state. In contrast, civil society and its institutions (local governments, associations) were intended to be reinforced. This approach, the structure of mutual trust in the positive effects may allow first and foremost cooperation between the state and the citizen. Therefore, after the party-state dictatorship, the active channels of the grass-roots initiatives should have been encouraged. They know large sections of society’s problems and they could convey them to decision makers. Good governance is not ‘good’ only because the government was elected in a legal manner by the citizens. John Frivaldszky points out that it is good also because the members of the political community actively participate in decision-making.<sup>25</sup> In the Good governance model, the citizens are not only subjects of the legislative and governance activities, but they are also its active participants. Frivaldszky gives a long account of the advantages and disadvantages of the good governance model. We now come to focus on what the researchers uniformly called an advantage, since it is obvious that this is the dividend, the experience as a lesson that is worth keeping, and this knowledge should be used.

However, the lack of multi-level research in the middle of the whole structure of government is missing. Between the central and local self-governments serious distortions and imbalances were observed in respects of both administration and the use of resources, writes Ilona Kovács, Pálné in her 2008 study. She states that there is a regional middle level “black hole” in the distribution of real money. This fact is a hotbed of corruption. On the other hand, the implementation of public policy programs increases the lack of mid-level local party political influences. So finally, it is no wonder that the implementation of the pro-

23 Hughes, O. E. 1998. Public Management and Administration. London, Macmillan.

24 Attila, Ágh: Közpolitika, in: Mi a politika? Osiris, Budapest, 2004. 159.p

25 János, Frivaldszky: A jó kormányzás és a helyes közpolitika formálásának aktuális összefüggéseiről, in: A jó kormányzásról, szerk: Szigeti Szabolcs és Frivaldszky János, L'Harmattan Kiadó, Budapest, 2012

grams is difficult, or even fruitless, because they do not achieve their original goal and in the meantime, they will consume a lot of money.

In Ferenc Mező's study, written in 2010, he sheds light on the lack of the democratic functioning of the middle level. It states that although there are regional governing bodies, they are not legitimate because they are not led within the framework of democratic elections. So in fact, the interests of Budapest are the toys of the capital city's authorities. Mező also draws attention to the fact that in all of this context, the regional institutional system does not have financial autonomy.

## 6. „COG IN THE WHEEL – STORY”

The author discussed with several of her colleagues how they see the centralization of schools. They were „cogs in the wheel”, executors, interpreters of the process and they suffered from the circumstances at the same time. They presented the following professional story:

The decentralized system of public education was an integral part of the administrative system. The lack of mid-level management, regional management, fragmentation and weak sophistication caused the excessive strengthening of the local level. The mid-level, democratic control, the regional specific, transparent control was missing. Without it, there was no real accountability and effectiveness. Decisions were forced from the top but the public policy programme was implemented locally.

We thought this was to be improved by strengthening the middle level, which would have created a balance between the central and local administration and by continuing to strengthen the involvement of wider society in public policy implementations. Well-structured administration of this state may increase the management and decision-making power. These conditions are able to increase the confidence of citizens, through their involvement in the decisions and activity. This is what strengthens the state: confidence of smaller or larger communities of the State, the public administration holding the toolkit of managerialism is much more efficient. The strong mid-level balance is the basis of accountability.

The idea of a public school district integrating administrative districts – 198 administrative districts and 198 school districts – could be a good idea. The pace and force of unprepared decisions, however, are all seen as harmful. We felt that with the conversation occurred just what happens after the child has been bathed: „the baby was poured out with the bathwater”. It was impossible to plan the work, so we have become uncertain. We were constantly scared and did not know when and what decisions and what we can do. The KLIK Center was in silence or held extremely long and unproductive meetings about particular, incidental issues for 200 people at the same time, or scolded us that we do not work well. We also saw, we have witnessed, when the Secretary of State acted in the same way as the President of the KLIK Center. The extreme uncertainty sharpened the conflicts and distrust between people.

## 7. THE NAME AS A SYMBOL

During our discussions we mentioned the choice of the name of the new center.

The center is named after sustaining institution to Kuno Klebelsberg, who was the minister of Education in the 1920s. Klebelsberg was the main representative of the cultural superiority ideology; according to which after the military defeat Hungary can only win back its old influence in the region through culture and human knowledge that is though the minds, as armed revenge is not possible. The cultural superiority theory as the foundation often cited from Klebelsberg's 1922 speech at the ministerial chair occupation when he said: "the Hungarian homeland today cannot primarily be great with the help of the sword, but with the help of culture" (Klebelsberg, 1927, 604-608.)

Gabor Palló presents the Minister in 2007 as follows: "The education was a particular combination of military, education system, and foreign policy. Schools served the existing political system with their curricula, with their content. Klebelsberg found important advisors in the development of the organization and the education system. Ákos Pauler, an important Professor of Philosophy of the age, and education professor Erno Fináczy helped, but mostly piarist monk Gyula Kornis, philosophy professor, academician, who was also president of the Academy for a short time in 1945. Kornis worked in rank of Secretary of State for Klebelsberg."<sup>26</sup>

Finally, we remembered that we all started to work in the school district enthusiastically. The most important thing was creating a more equitable distribution of resources in the schools, and we wanted a good relationship with the owners of the school buildings, with local governments as well. We trusted in the support of school principals, too. However, it became clear very soon that these expectations were illusions. Suspicion arose that the attacks of centralization aimed at building a kind of political-ideological domination. The largest and most powerful social opinion-forming institutions are schools and teachers.

I left KLIK. Now I remember Geertz' thoughts: „This interpretation depends on a number of circumstances, for example on interests. However, these conditions are not objective and not accurately measurable. In fact, they are only discovered through the actions. They only get their meaning in the mix of unaccountably many factors, the process of implementation or action. Clifford Geertz writes "man is an animal who depends on the web of meanings created by himself. I consider this net culture, and I consider its analysis precisely because of this a law not seeking experimental science, but an interpretative science unforgivingly hold."<sup>27</sup>

## 8. IDEA OF THE „SMALL BUT STRONG STATE”

In 2010 FIDESZ-KDNP came to power with the slogan of the neoweberian government model: „small but strong state”. My claim, however, is that the total top-down governmental systems, which present a creation of the Klebelsberg Institution Maintenance Centre , is not

<sup>26</sup> Palló Gábor: Klebelsberg Kuno: Politikus kultuszminiszter, Magyar Tudomány, 2007. 12. szám, 1619.p.

<sup>27</sup> Geertz, Clifford 1994. Sűrű leírás. Út a kultúra értelmező elméletéhez. In Clifford Geertz: Az értelmezés hatalma (ford. Berényi Gábor). Budapest: Századvég Kiadó. 170–199.

consistent with this governmental vision. The new Weberian model on the one hand, probably only flourishes where there is a well-established, fulfilling Weberian administration.

### ***8.1 What model of democracy has emerged in Hungary, between 1990 – 2010?***

The public management reform began in 1990 with new politicians and top level technocrats outside the government. Their attitude and their division of labor, their role interpretation was founded on the ancient cast: politicians decide and bureaucrats serve and execute. In 2010 the situation was better. Democracy is a learning process, and we learned a lot during the 20 years: lots of techniques from the toolkits of managerialism and we were touched by the breeze of a new mode of politicization. Of course, we had plenty of deficiencies. If we compare the characteristic of politicization of public administration in Western democracies with the Hungarian practice, we recognise the following:

- Not enough progress has been made in transparency, accessibility and responsiveness.
- Performance management and budgeting have not been planned and implemented.
- Public policies exist without a relevant strategy.
- The relationship between politicians and civil servants is not consolidated.<sup>28</sup>

The new weberian model is a good mixture of the legacy of the authoritarian governmental system where the politicization of public administration is strong and dominant (this is the „strong state”). There is a working institutional mechanism of participative involvement of citizens, and the government could use lots of valuable techniques from the toolkit of managerialism (this is the small state, because the state shares the responsibilities and uses the efficiency marketing strategies and tools).

Jenei says that the new-Weberian model could be the good solution, but there are certain preconditions to it. Firstly, “we must not try to avoid the Weberian phase of development. Moreover, we need a balanced position and public administration needs a stable political background and strong consensus of the political parties in supporting this process.”<sup>29</sup>

The governance of the state needs, but this does not mean that you do not need the market, bureaucracy, or civil society networks, and they cannot be related to governance in any way; but it does mean that the issue of governance is unimaginable without the problems of the state.

For proper public policy decisions and good judgment there is something that cannot be formalized, that is the mere legality of ensurance is not guaranteed to justice, but first and foremost a form of exercise and it requires certain discretion, however, in a legally circumscribed manner.<sup>30</sup> The legality of administrative decisions, the legality and effectiveness of governance is not a problem-free relationship, since the first does not guarantee the latter.

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28 J. Jenei: Solidifying system of democracy in the central and eastern European new EU members, *Society and Economy*, Journal of the Corvinus University of Budapest, 32. pp.33-46. 2010.

29 same, 40.p.

30 FRANCIS FUKUYAMA: *Államépítés, kormányzás és világrénd a 21. században*. Budapest: Századvég Kiadó, 2005. 99.

Effective management requires a form of government discretion, therefore the carefully circumscribed manner endeavors to ensure the executive power.

What the author experienced as a school district director, as well as the complaints and fears expressed by her colleagues and school staff, makes her believe that the main problem is that there was a lack of consensus. The government considered the decentralized education system harmful. Fair enough – this could be an argument. However, these arguments would have been vitally needed! Moreover, it could also be fit to show why an unprepared and super-fast centralization is the best and only solution.

The disfunctional working of KLIK has initiated many ministerial commissioner reports,<sup>31</sup> which might not have been revealed to the public. Later, one of the Department Heads of Education Ministry – the sister of the President of Republic – also produced fault-finding report about KLIK.<sup>32</sup> Secretary of State Education officials would not comment on the two official reports. It is unprecedented. No one even considered it necessary to correct the errors of the investigation reports which also had an impact on the assessment.

## 9. CONCLUSION

During the second Orban government, the same academic and theoretical backgrounds were included in the transformation of public education. The meritocratic approach is basically recommendable: but hiding the political will behind elevated ideals was hazardous in the past and it is today, too. However, the balance between cultural-traditional ideas and modern governmental practice and techniques can be created only by social balance.

The centralization of the public education system is not a fault but a vision in itself.

However, if the political decision does not measure the government's capacity, that is a mistake. To make a political decision without using the governmental administration's previously acquired knowledge and experience is not a good choice. The political decision, without a broad social consensus behind it: is not a wise decision.

“We were in the middle of creating essentially new relationships between government and civil society and among market types, public, and third sector organizations” – this was Jenei's statement in 2010.<sup>33</sup>

My opinion is that the consensus is absolutely missing from behind the reform of elimination of the decentralized public education system in 2013. Furthermore, the government eliminated the experiences of managerialism as a method and participative involvement as a mechanism and the attitude of social and civil dialogue, as well.

31 [http://hvg.hu/itthon/20140127\\_Index\\_megvan\\_a\\_jelentes\\_csak\\_a\\_baj\\_van\\_a\\_http://www.hir24.hu/belfold/2014/01/27/kimeletlen-jelentest-kapott-orban/](http://hvg.hu/itthon/20140127_Index_megvan_a_jelentes_csak_a_baj_van_a_http://www.hir24.hu/belfold/2014/01/27/kimeletlen-jelentest-kapott-orban/)

32 [http://index.hu/belfold/2014/03/05/ader\\_huga\\_szerint\\_racionalizalni\\_kell\\_a\\_kliket/](http://index.hu/belfold/2014/03/05/ader_huga_szerint_racionalizalni_kell_a_kliket/)

33 J. Jenei: Solidifying system of democracy in the central and eastern European new EU members, Society and Economy, Journal of the Corvinus University of Budapest, 42. pp. 2010.

Overall, the centralization of public education is a governmental and public policy failure at the same time.

Governmental failure, because:

- of a lack of political, professional and broader social consensus,
- there was not sufficient political wisdom accepting and appreciating the previous political – administrative results. Thus, not only the changes which did not work well are swept away, but also what did work,
- changing of the entire public education governance structure was violent and too fast. However, this process was only a consequence of the transformation of the whole administrative structure, which integrated public education governance,
- the government did not communicate the anomalies of KLIK's working,  
Public Policy failure was the implementation of centralization with creating KLIK:
- They were not given the basic conditions of establishing and working of KLIK. From one day to the next the ministry was trying to figure out how it could provide the necessary financial and human resources for this.
- The whole process posed a great risk to supporting and guaranteeing the quality of public education.

## ICT ENABLED CROSS-BORDER GOVERNANCE

*In the present study we try to draft the frameworks for interpretation of cross-border governance and to define the potential role of ICT solutions in developing functioning governance models. For the sake of a better understanding we have divided our study into four chapters which define successively the notions of 'governance', 'border', 'cross-border governance'; the final one focuses on the effects ICT solutions can have on cross-border governance.*

*Our starting-point is the presumption that space is a social product, consequently borders can be considered as results of conventions and not administrative or physical barriers. Since space is a social product it is determined culturally by the community / society and is defined by a particular discourse, during the last 4 centuries by nation states and nationalisms.*

*Nowadays, national discourse on space is gradually losing its self-evidence and new forms of institutionalised cross-border cooperation are emerging. This evolution will change not only the traditional terminology of space but also the way of governing things. The progress of info-communication technology resulted in the birth of virtual space, virtual identity. The world of spaces has given place for the world of flows. In this situation cross-border governance opens new perspectives for cooperation.*

*In our study we try to give a short overview on the issue of cross-border governance, on its theoretical background, its opportunities and limitations. The term 'cross-border' will be used in its stricter sense referring to direct cooperation across state borders.*

*For better understanding, we have divided our study into four chapters enlarging gradually the field of investigations started by the definition of 'governance'.*



### 1. GOVERNANCE

Governance is an innovation of modernity. As in his famous lecture given at Collège de France (titled *Governmentality*) Michel Foucault points out, in the Middle Ages the Prince was in a transcendent relationship with his subjects: "there is no fundamental, essential, natural and juridical connection between the Prince and his principality"<sup>1</sup>. The Prince acquired his power over the territory and the population living there through occupation, he-

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<sup>1</sup> FOUCAULT, M., 'Governmentality'. In *Security, Territory, Population: Lectures at the College de France 1977-78*. Palgrave-MacMillan, 2007, 126-145.

redity or accession but there was no immanent togetherness between the population and him. Consequently, the Prince's main aim was to maintain his power over the territory considered as an external mark of his sovereignty and to secure his relationship with it.

According to Foucault's theory the big change was made during the 16<sup>th</sup> and 17<sup>th</sup> centuries when new ideology of *government* evolved. The difference between medieval and modern approach is marked by Foucault by the smush 'governmentality'. The unified word contains the idea that the heart of the new approach is not the maintenance of a given territory but a mentality oriented toward *governing things* which are "men in their relationships, bonds, and complex involvements with things like wealth, resources, means of subsistence, and, of course, the territory with its borders, qualities, climate, dryness, fertility, and so on. 'Things' are men in their relationships with things like customs, habits, ways of acting and thinking. Finally, they are men in their relationships with things like accidents, misfortunes, famine, epidemics, and death."<sup>2</sup>

*Govern-mentality* means a way of thinking the *Leitmotiv* of which is the improvement of living conditions of the population, amelioration of the health care system, enhancing the level of education, strengthening the capacity of work of the people and expanding average life expectancy within the country. It is very similar to the fact named nowadays as "welfare state".

During this process Kingship (*principauté*) was replaced by the Nation State with its own reality, own rationality and internal rules. How did this process take place?

It is evident that when concentrating on realms *immanent with population* (to govern) instead of maintaining superficial power over a given territory (to reign), the nature and the behaviour of the Sovereign will perform a drastic change. This change can be described through the presentation of the change of the nature of sovereignty.

When investigating living conditions in the USA in the 1830s, Alexis de Tocqueville foremost identified the process of the development of equality of living conditions. "Aristocracy had made a chain of all the members of the community, from the peasant to the king, democracy breaks that chain and severs link of it."<sup>3</sup>

Two centuries later, Charles Taylor describes the same phenomenon by the following wording: "We have moved from a hierarchical order of personalized links to an impersonal egalitarian one, from a vertical world of mediated access to horizontal, direct-access societies."<sup>4</sup> Previously existing mediating powers (one can call them as 'local autonomies') have disappeared, the individual is confronting with impersonal State.

In parallel with the disappearance of hierarchy from the society the way of exertion of power is changing, too. Sovereignty becomes immanent with the people, the government is functioning by the mandate given by the people.

It is disputed whether nationalism is a product of modernity or it is the return of an atavistic tribal phenomenon. According to the interpretation of Ernest Gellner (and earlier Lord

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2 Ibid.

3 TOCQUEVILLE, A. de, *Democracy in America*. Adlard and Saunders, 2003

4 TAYLOR, Ch., *A Secular Age*. Harvard University Press, 2007 <http://www.scribd.com/doc/16205621/A-SECULAR-AGE->

John Acton), nationalism cannot be separated from the development of the modern principle of sovereignty of people and the social contract theory.

In this new system sovereignty is not connected to a (not-permanent) personality but to a certain, more or less permanent unity of territory (see Bodin) or a political body (Rousseau) creating rules for itself. In parallel, loyalty of the subjects is not connected to a royal family or a local autonomy but to the nation as a whole composed by people similar to them.

The way of wielding of power proper to nationalism is the bureaucratic nation state: the ideal and practical realisation of immanence. Consequently, governance is a product of modernity, and it cannot be separated from the model of nation state.

## 2. BORDER

When the book titled *La production de l'espace* of French historian Henri Lefebvre came up in France it had no big impact on scientific discourse. But in 1991 when it was published in English, the book gave munition to the geographers defending the relativist / relationist theory of space and became known world-wide.

In his work Lefebvre states that the space is a social product. He distinguishes three forms of this production. At the first level, perception in the mind creates space composing the pictures of things and objects around us in one totality (*espace perçu*). At the second, representations of space are made by human beings (e.g. a country is not a nature-given reality, in this case things and objects are interpreted in the way a new concept of space is made : *espace conçu*). Finally, these representations become the spatial representation of time (*espace vécu*). The last form means that the space produced by us influence our daily lives (or identity). If the space is a product of society, the narratives on the space can be changed according to the changes arisen within the society.

From our point of view, Lefebvre's theory of space has two implications. Firstly, he thinks that each regime produces a particular form of spatiality. Society creates borders inside and outside of the community. Social behaviour, traditions, and cultural identity are summarised in different discourses ruled by different socio-cultural and political structures. When the political regime or the deep social structure changes (quickly or slowly) the discourse on space is changing, too.

The past centuries in the Western world have been defined by the discourse of nation state which gradually produced its representations : official language, national currency, democratic parliament, national provisions and state borders. Since 1945 the number of nation states has almost tripled and the process is still continuing. Mill's thesis on the coincidence of the borders of the state and the nation spread over the world has been producing new narratives on the space following the modern European model.<sup>5</sup>

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5 "... it is in general a necessary condition of free institutions, that the boundaries of governments should coincide in the main with those of nationalities". MILL, J. S., Considerations on representative government. Routledge and Keagan Paul, 1977

The second implication of Lefebvre's theory is that politics has the capacity to influence the discourse on the space defining so common identity (*espace vécu*) of the community. This capacity is represented by the laws, rules, the normativity created by nation state in our case. Border is a sign of normativity. Those crossing the borders offense the borderline, breach normativity in a sense.

Contemporary scholars of borderlands studies consider state borders as products and not givens by nature. "A line is geometry, a border is interpretation" – states Henk van Houtum<sup>6</sup>. David Newman describes the process of border production in a very similar way to that of Lefebvre's theory on space: "Borders are created by those who have the power to *keep out* those people and influences which are perceived, at any point in time, as being undesirable or detrimental to the home territory or group. [...] Once created, borders become transformed into reality, a default situation which impacts upon daily life patterns and social mores, determine the parameters of exclusion and inclusion, and creates the categories through which social and spatial compartmentalization is perpetuated."<sup>7</sup>

John Agnew calls this phenomenon as the '*territorial trap*': state is a container of social relations; state determines the notions of 'internal' and 'external' and exerts its total power over everything which belongs to former one. At the same time the world ends on the other side of the border: inside there is order, outside chaos.

Territorial games have always had zero-sum: the narratives on space and borders rivalling against each other have no win-win solution within the framework of nation state paradigm. Conflict is encoded in the discourse of nation state: "If expressed in territorial terms (as in national border conflicts), the fact that territory (unlike other 'goods' such as democracy or development) has a finite and fixed total directly encourages 'zero-sum' thinking, where gains for one side are typically seen as losses for the other, and vice-versa."<sup>8</sup>

### 3. CROSS-BORDER GOVERNANCE

From the point of view of the reflections above, cross-border cooperation is something abnormal, something which is against normativity and can be interpreted as injury, violence against the official discourse. Cross-border governance is even worse since borders are the most transparent signs of nation state that governance is belonging to. Governance is something which seems to be inseparable from nation state model and it can be identified by list-

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6 HOUTUM, H. v., Borders of Comfort: Spatial Economic Bordering Processes in the European Union. In ANDERSON, J. – O'DOWD, L. – WILSON, T.M. (ed.): *New Borders for a Changing Europe. Cross-Border Cooperation and Governance*. Routledge Taylor and Francis Group, 2003, 37-58.

7 NEWMAN, D., Contemporary research agendas in border studies: An Overview. In DORIS, W-W. (ed.), *The Ashgate Research Companion to Border Studies*. Ashgate, 2011, 33-47.

8 ANDERSON, J. – O'DOWD, L. – WILSON, T.M.: Why Study Borders Now? In ANDERSON, J. – O'DOWD, L. – WILSON, T.M. (ed.): *New Borders for a Changing Europe. Cross-Border Cooperation and Governance*. Routledge Taylor and Francis Group, 2003, 1-12.

ing the ministries of a democratic state: all functions performed (*ministered*) by the ministries form the frame of the notion of governance.

However, all that we can see now in the world demonstrate that there are no longer problems which can be solved at national level. Not only fields like foreign affairs or national security presuppose external relations: controlling of big contagious diseases; environment protection; criminal investigation; or even the development of education and health care system are considered as inter-*national* issues.

The European Union's main objective is to develop Single Market and to create a secure and peaceful continent. In this process borders are considered as obstacles. In the history of European integration a tendency of homogenization can be identified : more and more issues and competences are removed from national to Brussels' level. The EU institutions pull topics that belonged previously to the self-definition of the nation states: national currency, national legislation, the control over border crossing. At the same time issues managed by national ministries before (governance) become common matters of the European community (cross-border governance).

Maybe the most innovative and most exciting forms of multi-level governance are produced by local stakeholders in borderlands. Institutionalised cross-border cooperation challenges the traditional narratives on space and border, it overturns conventional topics and discourses and casts doubts on the evidence of the former model of governance managed by nation states, exceptionally.

#### 4. ICT ENABLED CROSS-BORDER GOVERNANCE

By heightening cross-border cooperation to normative level (the level of ruled cooperation where also the statistical regions are within a state ), the normativity of the border has lost its sense. From on now cross-border cooperation and its tools have the same normality and normativity like nation state borders.

ICT can play a decisive role in creating this new normativity in two senses : as a tool of information provision and as a tool of integrated service provision (new form of governance). This role is underpinned by the modification of terminology of spatial studies produced by the birth of virtual space. As a result of the progress in ICT our life-world is fragmented by different perceptions on space producing proliferation of local identities. But locality here does not necessarily mean a geographic locality anymore : within human society (considered as a kind of quasi-space) new identities are developing which can geographically be discontinued (just think about fan clubs of a football team or ad-hoc groups set up in very short time on social sites, etc.). What we see now it is the multitude of "local" narratives instead of comprehensive metanarratives where the identity of Self is fluctuating among different space-structures produced by themselves or other people. National narrative, national discourse has lost its exclusiveness: today's people use different narratives, different identities, different definitions successively or simultaneously.

This is the reason why scholars of human geography use terms such as liquid modernity<sup>9</sup>, fluidity<sup>10</sup>, mobile identity<sup>11</sup>, de-territorialisation<sup>12</sup> when describing today's processes where the *world of spaces* give its role to the *world of flows*.

In this sense, traditional definitions like centre and periphery change their meanings. Freedom and competitiveness are in close relationship with digital literacy, including information literacy and Internet or hyper-literacy as well.

All the above mentioned processes can gradually re-define the term and the content of governance as well.

At the same time, while there are a few territories where ICT solutions are used in cross-border relations serving the development of cross-border governance structures and EGTC<sup>13</sup> as a legal framework is given for managing those structures we cannot speak about cross-border governance in the sense of administration. It is a matter of fact that more and more public services provided previously exclusively by national level institutions are available at international or community level but administrative competences are strongly bound to nation states.

How ICT could help make those services available for neighbours?

Well, ICT creates a new dimension of space (virtual or cyber space) which better matches new (fluid) forms of identity than traditional geographic spaces do. A big advantage of virtual space is its independence from physical space.

Second Life models make it possible to create so-called synthetic spaces where virtual representation of the Self (virtual identity or avatar) manages (administers) its own affairs<sup>14</sup> [11., 16.] As info-communication functions by using artificial languages the difficulties produced by cultural variety of Europe can be managed, too. Daily life will enforce the opening of state borders for new forms of cross-border governance. It might happen in the near future...

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9 BAUMAN, Z., *Liquid modernity*. Blackwell, 2000

10 Houtum, *ibid*.

11 PAASI, A., *A Border Theory: An Unattainable Dream or a Realistic Aim for Border Scholars?* In DORIS, W-W. (ed.), *The Ashgate Research Companion to Border Studies*. Ashgate, 2011, 11-31.

12 DIENER, A. C. – HAGEN, J., *Borders. A Very Short Introduction*. Oxford University Press, 2012

13 *European Grouping of Territorial Cooperation*.

14 TÓZSA, I., *A közigazgatás jövőképe*. In JENEY, L. – HIDEG É. – TÓZSA I. (szerk.), *Jövőföldrajz. A hazai gazdasági fejlődés területi és települési aspektusai a jelenbe és a jövőben*, Budapesti Corvinus Egyetem Gazdaságföldrajz és Jövőkutatás tanszék, 2014, 155-178. and NEMESLAKI, A.: *Vállalati internetstratégia*, Akadémiai Kiadó, 2012

## AUSTRIA AND HUNGARY: DIFFERENT STAGES OF READINESS TO CREATE ADDED VALUE BY USING BUSINESS INFORMATION SYSTEMS

*It is very important to recognize that the future of e-government cannot be thought through in isolation, it cannot be assessed as a series of administrative tasks or a wider set of measures aimed at making the state more efficient. The administration of today and tomorrow essentially depends on the changes of the economy, society and culture as well. Local governments and public administration serve the interests of citizens and businesses alike, therefore public administration significantly depends on the knowledge, consciousness and mentality of individuals and enterprises, too. However, it is still an open question whether enterprises in Austria and Hungary actually have the IT infrastructure enabling them to adopt the devices of e-governance at a faster pace. The primary objective of this paper is to explore the differences and similarities in the usage of information systems in different size categories in Austria and Hungary. More precisely, it examines how frequently information systems are used in four of the pre-defined size categories (microenterprises, small and medium-sized enterprises and corporations) in both countries. Microenterprises in Hungary hardly used any information systems. When comparing the two countries, the smallest difference could be observed in the use of information systems by corporations.*

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### 1. INTRODUCTION

Technology investments both in business and in government applications are seen as key sources of innovation. The value of these investments – both from economic and social points of view – are defined by the outcome that these investments generate. In economics we might conclude that ICT investments generate value if the outcome is positive in economic terms, that is, it contributes to measures improving growth, productivity, efficiency or effectiveness. On the level of enterprises, these outcomes translate into revenue increase or cost savings but since the Internet boom of the 1990s, researchers have attributed more and more significance to ICT transformational outcomes. Transformation is closely coupled with radical innovation or non-incremental change, which fundamentally alters the traditional ways of doing business. Transformational impacts can result in major disruptions of

an industry's competitive structure, changes in user experience, in consumption (such as online shopping), altering business processes, creating brand new organizations and many others. The term "e-business" in this context places this issue in its focus: what kind of economic value is generated by ICT investments and how this value is ensured?

In the public sphere, e-government deals with a similar problem as far as value creation is concerned. The outcome, however, is very different: better governance, democratic transparency, improvement in social life. Beside the holistic and broad societal values, we can also define lower, public service level outcomes of ICT investments such as improved public service delivery, better coordination across government, improved public engagement, and more efficient process management. The use of ICT applications makes it effective to handle large amounts of administrative tasks. Data transfer will become faster and cheaper, increasing the dynamics of administration. Sharing databases between various institutions will lead to cost reduction, lessened complexity and the avoidance of unnecessary and redundant solutions. Archiving and data retrieval become easier and less expensive, the history of different types of administrative cases and matters gets easier to follow. However, it is possible to talk about efficiency only in the long run as online and offline services have to be maintained side by side as long as they are requested by public and business enterprises. Businesses have been using electronic devices to help their operation at some level since the emergence of computers. Naturally, similarly to all technical innovations, they were initially only available for large companies that had enough capital and were able to finance their development. In accordance with the proliferation of using computers, our basic assumption is that in countries where the use of IT devices is higher, enterprises have higher capability of manufacturing more complex products, and the production of more complex products leads to higher added value. Added value at basic prices can be simply defined as the difference between gross output (at basic prices) and intermediate consumption (at purchaser prices) and can be decomposed into the following components: Compensation of Employees; Gross Operating Surplus; Mixed Income; and Other Taxes on Production less Subsidies on Production. Among the EU member states, the capacity of generating added value was examined more closely in the case of two neighbouring countries, namely Austria and Hungary. Compared to the EU average of 27 countries, the average added value of the Austrian enterprises was higher by 70% with EUR 530,000 in 2012. In contrast, the average data of the Hungarian enterprises did not exceed EUR 87,000 which was equal to only 27 % of the EU average. The added value of microenterprises in Austria reached 173% and a modest 23% in Hungary in relation to the EU average. It mounted up to only EUR 17,000 in Hungary and EUR 124,000 in Austria per enterprise, which was nearly 7.5 times higher than the Hungarian data in 2012. The added value created by small-sized enterprises was eight times higher in Austria (EUR 1,042,000) and 18 times higher (EUR 315,000) in Hungary compared to microenterprises. The added value generated by the Hungarian medium-sized enterprises was only slightly over 40% of the average of the European Union (EUR 2,270,000). In the meantime, the added value of the medium-sized enterprises in Austria exceeded the EU average by 45%. Regarding the performance of the Hungarian enterprises, the corporations operating in the country lagged behind their Austrian counterparts to the least ex-

tent. The added value per enterprise in Austria was three times higher in the case of small- and medium-sized enterprises and two times higher in the case of corporations compared to their peers in Hungary.

## 2. THE RELATIONSHIP OF ICT DEVELOPMENT AND ECONOMIC PERFORMANCE

The key strategic motive behind information system (IS) applications is to “make things better” which means in economic terms that there should be a correlation between the added value created by enterprises in a country and their ICT development. Higher added value means using more complex information systems and employing more IT specialists. In order to verify this existing relationship, a linear correlation analysis was performed between the IDI development of a country and the average added value generated by the enterprises operating there. The analysis was conducted by using the data collected in 27 EU countries. The information society is an elusive phenomenon to deal with: its measurement requires careful planning and it is difficult to quantify and approach by using economic and sociological methods. The measurements and comparisons, however, raise a number of problems. Simple indices of infrastructure can be measured more easily but the more variables are there to work with, the more difficult it becomes to measure appropriately. The indices are the measurements and comparative methods of various segments of information society. The weight of separate factors in a given index reflects the viewpoint of governments, inter-governmental organizations and academic workshops in terms of the necessary factors for the development of the information society. One of the most elaborated indices is the ICT Development Index (IDI), which is published by the United Nations International Telecommunication Union and based on internationally agreed information and communication technologies indicators. This index seemed almost ideal for the purpose of our analysis since it is used to measure the ICT development levels in 155 countries. The index itself, which can be used as an evaluation tool at global, regional and country levels alike, combines 11 indicators grouped into three subindices: ICT access, use and skills.

Correlation calculations are used to describe the direction and the strength of a linear relationship between variables. In our calculation, the correlation between two variables – the IDI index of a country and the average added value created by enterprises – was examined.

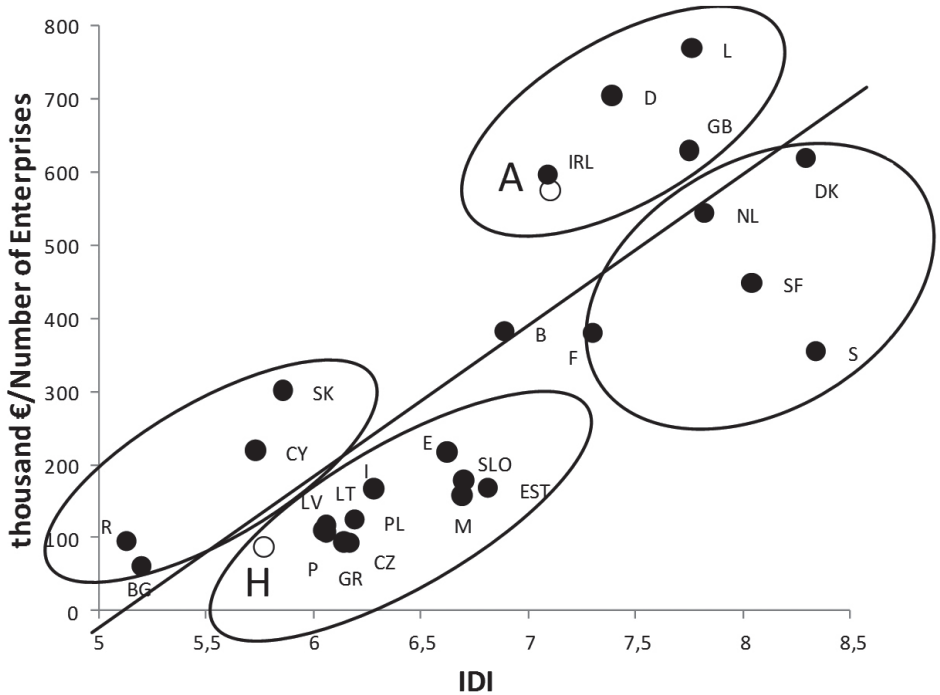
Depending on the individual countries the values of IDI were between 5 and 8.5, the added value per enterprise was between 50,000 and 800,000 Euros. The correlation coefficient is 0.791, which indicates a strong positive relationship. The linear correlation coefficient is the square of the determinant coefficient, which explains the added value with the IDI index by 61%. The standard error of the estimate (SEE) helps to determine the accuracy of the prediction. SEE shows the average standard deviation of the added value from the estimated values, which is a value of 1.39. The ANOVA table shows a similar division to variance analysis, based on the variance explained by each regression (817,842.426), and non-explained variance (487,849.245). Here, the significance of the f-test can also be read, which confirms the existence of the correlation (Sig. <.05).

In addition, it can also be observed by interpreting the t-test that the significance of the variable determining steepness is less than 5%, therefore IDI has a real effect on added value.

Based on the Unstandardized Coefficients, it is possible to read the formula of the regression line:

$$\text{Added value} = -1,010.976 + 196.45 * \text{IDI}$$

**Figure 1** • *The correlation between the added value and the IDI development of the EU countries in 2012<sup>1</sup>*



If we take a closer look at the figures, it becomes clear that the member states of the European Union can be divided into four distinct groups.

- Relatively high added value per enterprise with a comparably higher IT development level. This group of countries includes Austria, Germany, the United Kingdom and Ireland.
- Relatively high added value per enterprise with a comparably lower IT development level. Denmark, the Netherlands, Finland, Sweden and France belong to this group.

1 Abbreviations: A=Austria, B=Belgium, BG=Bulgaria, CY=Cyprus, CZ=Czech Republic, DK=Denmark, EST=Estonia, SF=Finland, F=France, D=Germany, GR=Greece, H=Hungary, IRL=Ireland, I=Italy, LV=Latvia, LT=Lithuania, L=Luxemburg, M=Malta, NL=Netherlands, PL=Poland, P=Portugal, R=Romania, SK=Slovakia, SLO=Slovenia, E=Spain, S=Sweden, GB=United Kingdom

- Relatively low added value per enterprise with a comparably higher IT development level. Four countries can be found in this group, namely Slovakia, Cyprus, Romania and Bulgaria.
- Relatively low added value with a comparably low IT development level. This is the most populous group, comprising Lithuania, Latvia, Estonia, Malta, Spain, Italy, Slovenia, Poland, Greece, the Czech Republic, Portugal and Hungary.

Austria is situated above the regression line while Hungary can be found below it. This means that the average added value generated by the enterprises operating in Hungary is lower than they could achieve by benefiting from their actual IT development level. In contrast, the IT development level in Austria is lower than the average added value produced by the country.

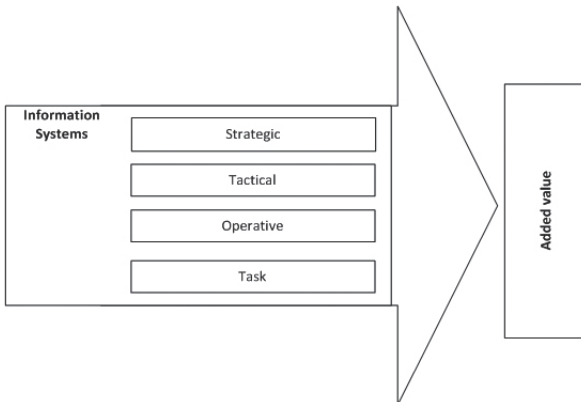
The correlation between added value and the ICT development level of a country is close. Nevertheless, the use of ICT has some beneficial effects that are difficult to quantify. The “Common List of Basic Public Services” is a recommendation for the performance of public service by the European Union which defines obligations for the member states regarding the range and levels of public service provided online. If businesses and citizens have a higher frequency of ICT usage in a country, it can also be assumed that they use the services offered by e-administration to a greater extent.

### 3. HOW DOES ORGANIZATIONAL USE OF ICT CONTRIBUTE TO BETTER ORGANIZATIONAL PERFORMANCE

This is a complex and widely researched question and this part of the paper intends to show and introduce the first fundamental element of the value creation process, that is, how information systems are configured.

The levels leading to the creation of added value are summarized in a rudimentary model shown in Figure 2, which, according to Resource Based Value theories, contribute to the value creation by enterprises.

**Figure 2 •** *The logical framework of IT added value and the research model of the paper*



Based on Antony's classification and in line with our assumptions, these systems can be transformed into decision-making and organizational levels of specific activities that are completed with a fourth one. These four levels are associated with the following tasks:

- Top-level management determines the business policy of an enterprise but they should provide guidance for the strategy to be implemented as well. In addition to the preparation of plans, they have to ensure their implementation and the correction or modification of their strategy if circumstances and conditions change.
- Middle-level management has to implement a policy specified by the top-level management, elaborating and implementing tactical tasks.
- The responsibility of the operational level of management is to directly control the implementation of real processes based on the strategy and tactics defined by the upper management levels.
- At the lowest executive level, the implementation of simple mass transactions is done. It can also be called the level of tasks.

Our analysis shows that in all aspects a noticeable difference can be observed between Austria as a high added value performer and Hungary as a catching-up performer. The primary research was based on a questionnaire that had already been filled out by Hungarian enterprises. The same questionnaire was used among the Austrian enterprises, providing a good opportunity to compare and analyze the two countries. The questionnaires were sent out randomly, regardless of company size, business activity and regional location. The sample size for comparison was almost identical as 94 enterprises in Hungary and 99 enterprises in Austria completed and returned the questionnaire by the set deadline.

#### 4. INFORMATION SYSTEMS AND CORPORATE DECISION LEVELS

In order to understand information systems (IS), we need to be aware of their general features, functions and key activities, together with their inter-relatedness to one another. Burt and Taylor define information systems as “*an integrated user-machine system for providing information to support the operations, management, analysis, and decision-making functions in an organization. The system utilizes computer hardware and software, manual procedures, models for analysis, planning, control, and decision-making by using a database*”<sup>2</sup>.

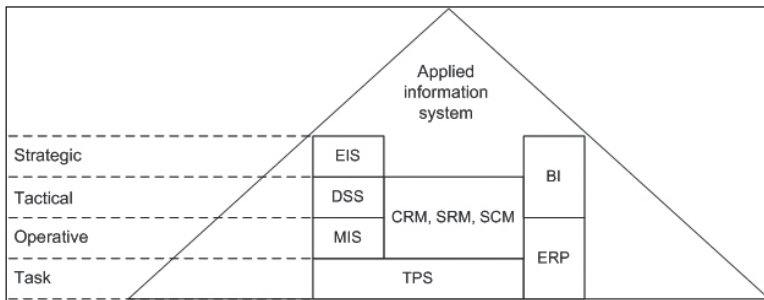
If it is true that certain specific IS can closely be connected to certain decision-making levels, then it is worth examining how each IS is related to the other and exactly what levels of decision-making they are designed to support. An Executive Information System (EIS) is a type of Management Information System (MIS) that facilitates and supports senior executive information and decision-making needs. It provides easy access to internal and external information relevant to organizational goals. It is commonly considered a specialized form of decision support system (DSS). MIS systems are distinct from other information systems because they are used to analyze and facilitate strategic and operational activities. Original-

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2 Burt, E. & Taylor, J. A. – Information and Communication Technologies: Reshaping Voluntary Organizations? – Nonprofit Management and Leadership, 11(2) – 2003 – 131–143 pp.

ly, the term MIS described applications providing managers with information about sales, inventories, and other data that would help in managing the enterprise. Over time, the term broadened to include: decision support systems, resource management and human resource management, Enterprise Resource Planning (ERP), Enterprise Performance Management (EPM), Supply Chain Management (SCM), Customer Relationship Management (CRM), project management and database retrieval applications. Transaction processing is a style of computing that divides work into individual, indivisible operations, called transactions. A Transaction Processing System (TPS) or transaction server is a software system, or software/hardware combination, that supports transaction processing. According to the traditional structure, MIS, DSS and EIS are based on a TPS system. CRM, SRM and SCM systems are basically designed to support decision-making at operational and tactical levels but it is inevitably necessary to have an underlying TPS system that addresses the daily tasks. ERP systems include some important functions of TPS, and are able to support the full operational level. Business Intelligence (BI) systems can include all sorts of decision-support systems used at middle and senior management levels that appear as BI applications. BI systems are always based on some lower-level support systems, mostly on ERP systems. ERP and BI systems can also be found in a complex package.

**Figure 3 • Corporate decision-making levels with the supporting IS<sup>3</sup>**



It is needed to emphasize that this categorization should not be regarded as a rule, it describes only the current major trends. There are instances showing that some systems also extend to other levels of decision-making, and general shifts between these levels are also possible due to the continuous development. After giving a more thorough insight into the functions and main activities of the described information systems, the major results of our analysis are highlighted below, showing the main tendencies of using information systems in all of the four examined company size categories.

Nearly two-thirds of the Austrian microenterprises used TPS systems. The proportion of ERP systems (both used and planned to use) was up to 27% in 2012. Using MIS sys-

3 Kacsukné B. L. & Kiss, T. – Bevezetés az üzleti informatikába – Budapest: Akadémiai Kiadó – 2007

tems reached 23%; their planned use was 3%. Less than one-tenth of the Austrian micro-enterprises reported using SCM and SRM systems. The proportion of the intended use of CRM systems reached 17%, although the rate of their actual use was only 5%. Using DSS did not exceed 1% in Austria. The use of such strategic systems as BI and EIS affected only one-tenth of the microenterprises in Austria in 2012. A quarter of the Hungarian micro-enterprises were using or planning to use TPS systems. The intended use of ERP systems did not exceed 10% in this size category. The planned use of MIS and SRM reached 15%, it was the second highest rate following the intended use of CRM which was 35%. The use of strategic systems was less than 5%. The use of SCM systems did not exceed 5%, either, their intended use was around 15% in 2012. It can be stated that none of the Hungarian microenterprises used IS at a higher frequency rate of 5%. Small-sized enterprises in Austria used TPS systems in the largest proportion; their usage rate was 75%. ERP systems were used by 46% of them. At operational level, MIS systems were used by nearly a quarter of the Austrian enterprises in 2012. The use of different tactical IS in the case of CRM and SRM affected the fifth of small-sized enterprises. Small-sized enterprises in Hungary most commonly used TPS systems (30%) followed by ERP (15%) and CRM (15%) systems. 15% of them reported using SRM systems. Based on the responses, none of the small-sized enterprises in Hungary used any kind of decision support systems. 7% of them used BI and only 4% of them reported using EIS systems.

**Table 1 • The penetration rate of IS among micro-enterprises and small-sized enterprises in Austria and Hungary**

Country		Austria			Hungary		
Levels	IS	Used	Not used, introduction is planned	Not used, introduction is not planned, either	Used	Not used, introduction is planned	Not used, introduction is not planned, either
<b>Micro-enterprise</b>							
Strategic	BI	8%	8%	84%	0%	5%	95%
	EIS	2%	0%	98%	0%	5%	95%
Tactical	DSS	0%	5%	95%	0%	5%	95%
	SCM	0%	8%	92%	5%	10%	85%
	SRM	7%	10%	83%	5%	15%	80%
	CRM	5%	17%	78%	5%	35%	60%
Operative	MIS	23%	3%	74%	0%	15%	85%
Task	ERP	20%	7%	73%	0%	10%	90%
	TPS	60%	2%	38%	5%	20%	75%
<b>Small-sized enterprise</b>							
Strategic	BI	29%	4%	67%	7%	11%	82%
	EIS	4%	7%	89%	4%	11%	85%
Tactical	DSS	0%	4%	96%	0%	30%	70%
	SCM	4%	11%	85%	11%	19%	70%
	SRM	22%	4%	74%	15%	15%	70%
	CRM	22%	4%	74%	15%	19%	66%
Operative	MIS	43%	4%	53%	7%	26%	67%
Task	ERP	46%	4%	50%	15%	22%	63%
	TPS	75%	7%	28%	30%	19%	51%

Nearly 90 % of the Austrian medium-sized enterprises used TPS systems. The proportion of using ERP reached 80% in 2012. The use of MIS systems approached 70%, and their planned use was 6%. Over a fifth of the medium-sized enterprises reported using SCM and SRM systems in Austria. The rate of using CRM exceeded 37 %, being the highest frequency rate among the IS used at tactical level. The use of DSS was not typical in this size category. The use of strategic systems, including the use of BI, affected more than a third of the Austrian medium-sized enterprises. More than half of the Hungarian medium-sized enterprises used or planned to use the TPS systems. Using ERP systems was more than 40% in this size category. The intended use of MIS and SRM was nearly 40%, and 44% in the case of CRM systems which was the highest rate in the group of IS used at a tactical level. The use of EIS systems was used by nearly a quarter of the medium-sized enterprises. Although, the use of SCM systems affected a quarter of medium-sized enterprises, their intended use was up to 26% in 2012.

**Table 2 •** *The penetration rate of IS among medium-sized enterprises and corporations in Austria and Hungary*

Country		Austria			Hungary		
Levels	IS	Used	Not used, introduction is planned	Not used, introduction is not planned, either	Used	Not used, introduction is planned	Not used, introduction is not planned, either
<b>Medium-sized enterprises</b>							
Strategic	BI	38%	6%	56%	7%	19%	74%
	EIS	7%	7%	86%	26%	4%	70%
Tactical	DSS	0%	14%	86%	19%	18%	63%
	SCM	19%	0%	81%	26%	26%	48%
	SRM	25%	0%	75%	37%	19%	44%
	CRM	37%	12%	51%	44%	15%	41%
Operative	MIS	69%	6%	25%	41%	15%	44%
Task	ERP	81%	0%	19%	41%	7%	52%
	TPS	88%	6%	6%	52%	7%	41%
<b>Corporation</b>							
Strategic	BI	92%	8%	0.00%	20%	15%	65%
	EIS	67%	8%	25%	45%	10%	45%
Tactical	DSS	33%	17%	50%	35%	20%	45%
	SCM	55%	18%	27%	40%	0%	60%
	SRM	64%	18%	18%	60%	5%	35%
	CRM	75%	17%	8%	50%	10%	40%
Operative	MIS	92%	8%	0%	60%	5%	35%
Task	ERP	92%	8%	0%	60%	10%	30%
	TPS	100%	0%	0%	75%	10%	15%

Every responding corporation in Austria reported using TPS systems. The use of ERP by corporations was almost 90%. Nine out of ten corporations used MIS systems at the operational level. In the case of CRM, the use of various IS at a tactical level affected three-fourths of the Austrian corporations. With a usage rate of more than 60%, the use of SRM was the second most commonly used tactical system in Austria. The use of SCM systems was typical of every second, the use of DSS was typical of every third corporation in Austria. The use of

BI systems reached an impressive 90% and the use of EIS was also high, affecting more than two-thirds of the enterprises belonging to this size category. The most frequently used information system was TPS among the Hungarian corporations, reaching 75%. It was followed by the use of ERP (60%) and MIS (60%) systems. CRM systems were used by 50% of them. Based on the responses, six Hungarian corporations out of ten used SRM systems. It was also remarkable that only a fifth of the Hungarian corporations used any kind of BI systems and nearly half of them used EIS systems during their daily operations.

## 5. CONCLUSIONS

As it is increasingly visible, information society creates a new type of state, a digital state that becomes, at least partially, a network state following the model of network economy and network society. Therefore, regional and local government administrations become more and more equal players to the central government, which is the traditional holder of the highest executive power. Their primary task is to create an atmosphere for citizens and business enterprises alike to participate rather than being subjects or subordinates. In order to achieve this, all stakeholders (such as citizens, private sector and state) must have adequate technical infrastructure and personnel. This is why it is crucial for the enterprises to be prepared for the challenges and opportunities of a digital state. The frequency rate of using IS by microenterprises in Austria exceeded the same rate as in Hungary. In fact, the same result was found in the case of using IS both at operational and strategic levels. In the case of the surveyed 9 IS it was found that the Hungarian microenterprises hardly used or did not use any of them at all. It can be explained by the complexity of the products and services offered by those enterprises, which, in turn, might affect the added value created by them. There was a more than seven-times difference between Austria and Hungary in this respect in 2012. The use of IS among the Austrian small-sized enterprises was twice as high at the level of performing tasks and six times as high at the operational level as it was found in the case of their Hungarian peers. A 30% handicap could be observed only at the tactical level while the Hungarian added value was barely a third of the Austrian one. The use of IS by medium-sized enterprises at the tactical level was very similar both in Austria and Hungary. It was remarkable, however, that the Hungarian data showed a 30% decrease at the level of tasks and at the operational level while the added value was still only about a third compared to the Austrian figures. The average added value generated by the Hungarian corporations was nearly half of their Austrian counterparts while there was a narrow gap in terms of operational and tactical levels and a more robust difference could be found at the strategic level.

## GOOD GOVERNANCE IN THE FIELD OF TAXATION

*The current crisis draws attention to the problem of the tax systems and welfare state sustainability. Tax competition all around the world and aggressive tax planning techniques resulted in changes in tax systems, shifting the tax burden from capital to consumption or labour. Intensely tax-friendly states for businesses and individuals destroy the tax base of other countries. In 2013, the OECD, the United Nations, and the G20 and G7 called for changes. Their efforts aim to create the minimum standards of good governance in tax matters and therefore increase budget revenues. Currently, the European Union seems to have a common interest in promoting good governance in the taxation as well; which is defined as the principles of transparency, exchange of information and fair tax competition. However the distinction between “fair” and “unfair” tax competition is much easier in theory than in the practice. From 2015 onwards, the EU aims to introduce administrative cooperation including information exchange between tax authorities, as part of the intensified fight against tax evasion. Balancing the tax sovereignty of the individual countries with the legitimate protection of their tax revenues is an enormous challenge.*

*Motivated by the above facts, in this paper I will present the main characteristics of the efforts creating good governance in the field of taxation.*

*In the last part of the work an overview will be given about the Hungarian responses to these challenges and with the help of a survey I try to analyze the reactions of the economic actors.*



### 1. INTRODUCTION: THE AIM OF THE PAPER

- 1) *A short presentation and analysis of current international efforts to move to the direction of good governance in the field of taxation. This includes a discussion of the principles of good governance, the identification of the endeavours of supranational institutions<sup>1</sup>, economic and political partnerships<sup>2</sup> trials to improve the fiscal position of the countries and the same as institution<sup>3</sup> through stronger cooperation furthermore new taxation measures.*
- 2) *A presentation and analysis of the main characteristics of some important Hungarian tax changes from the past three years going to the direction of tax good governance. I will present*

1 E.g. Organisation for Economic Co-operation and Development

2 Like the European Union (hereinafter EU).

3 See United Nations

the basic characteristics of some part of Hungarian tax law, their modifications during the last years and some opinions about them.

### 3) Answer the detailed hypotheses below.

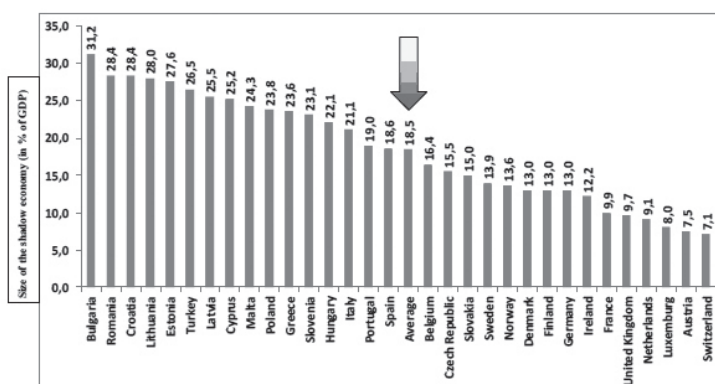
The hypotheses are listed as follows:

- H1 The impact of the international efforts for good governance on taxation can be seen in the Hungarian taxation policy.
- H2 “Best practices” can be found in the Hungarian taxation policy.
- H3 Creative tax rule for debt financing can also be seen in the Hungarian taxation policy.

## 2. FRAMEWORK FOR THE ANALYSIS – THE ECONOMIC BACKGROUND AND LITERATURE

Taxation has become a determining topic of the world economy nowadays. Fight against the shadow economy and tax evasion is an important policy goal among others in Europe. Figure 1 gives an overview of the size of the shadow economy in 31 European countries in 2013. It is clear that in different extent all of the countries are affected.

**Figure 1 • Size of the Shadow Economy in 31 European countries in 2013 (in % of GDP)**



SOURCE: SCHNEIDER, F. 2013<sup>4</sup>, P. 3

Almost all studies conclude that the tax and social security contribution burdens are among the main reasons for the existence of the shadow economy.<sup>5</sup> In the recent budget situations when financing the state’s debt is a problem in many countries, not only nations but

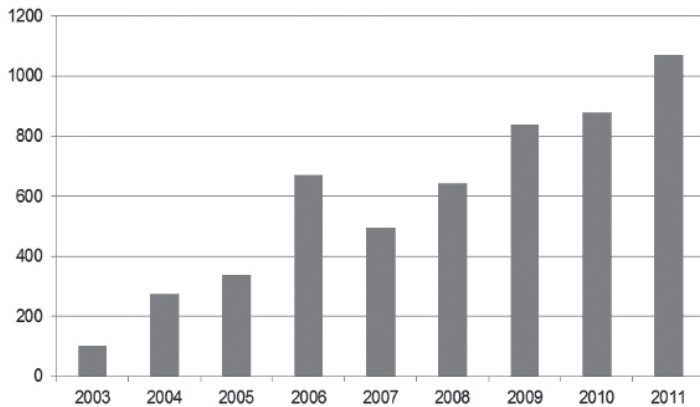
4 Schneider, F. (2013): Size and Development of the Shadow Economy of 31 European and 5 other OECD Countries from 2003 to 2013: A Further Decline, Available at [http://www.econ.jku.at/members/Schneider/files/publications/2013/ShadEcEurope31\\_Jan2013.pdf](http://www.econ.jku.at/members/Schneider/files/publications/2013/ShadEcEurope31_Jan2013.pdf), last accessed 2014-04-10

5 See Schneider, F. (2012): The Shadow Economy and Work in the Shadow: What Do We (Not) Know?, IZA DP No. 6423, p. 11, Available at <http://ftp.iza.org/dp5769.pdf>, last accessed 2014-04-10

also supranational institutions are looking for ways to have better financial background with the help of taxation.

Cooperation is a key word. E.g. in the framework of mutual assistance in tax collection the EU member states collected ten times more tax in 2011 than in 2003, see Figure 2.<sup>6</sup>

**Figure 2 • Tax collected in the EU since 2003 on the strength of mutual assistance in tax collection (Index: 2003=100)**



SOURCE: EURÓPAI BIZOTTSÁG (2013)

In June 2010 on the G20 industrialized and developing economies’ meeting in Toronto United Nations Secretary-General Ban Ki-moon proposed the intensification of international tax cooperation.<sup>7</sup> The 2012 World Economic and Social Survey of the United Nations focuses on instruments that could be relevant as international public finance resources. Taxing sectors considered to have “gained” most from globalization, such as the financial sector, or taxing global public “bads”, such as carbon emissions are considered. Internationally coordinated tax revenue might be the background to finance global public goods<sup>8</sup> and defined development purposes.<sup>9</sup>

6 Európai Bizottság (2013): Küzdelem az adócsalás és az adókikerülés ellen – A Bizottság hozzájárulása a 2013. május 22-i Európai Tanács számára, Available at [http://ec.europa.eu/europe2020/pdf/tax\\_hu.pdf](http://ec.europa.eu/europe2020/pdf/tax_hu.pdf), last accessed 2014-04-02

7 Ki-moon, B. (2010): UN Secretary General Letter to G20, 10.06.2010, p. 2, Available at [http://www.un.org/en/pdfs/Secretary-General%27s\\_letter\\_to\\_the\\_G20.pdf](http://www.un.org/en/pdfs/Secretary-General%27s_letter_to_the_G20.pdf), last accessed 2014-02-17

8 „Public goods become global (sometimes called international public goods) in nature when the benefits flow to more than one country and no country can effectively be denied access to those benefits.” E.g. international rules and institutions, control of infectious disease, promotion and protection of cultural diversity, core labour rights, and the environment through global cooperation., About global public goods and global public “bads” see United Nations/World Health Organization (2014): Global Public Goods, Available at <http://www.who.int/trade/glossary/story041/en/>, last accessed 2014-03-21

9 United Nations/Department of Economic and Social Affairs (2012): World Economic and Social Survey 2012, In Search of New Development Finance, p. 9, 22, Available at [http://www.un.org/en/development/desa/policy/wess/wess\\_current/2012wess.pdf](http://www.un.org/en/development/desa/policy/wess/wess_current/2012wess.pdf), last accessed 2013-09-30

G7, G8 and G20 leaders seem to be pushing forward international tax cooperation. Fight against tax evasion and tax avoidance was one of the main topics on the G8 summit in June 2013.<sup>10</sup> In September 2013 the leaders of the G20 emphasized that shifting profits to low-tax jurisdictions undermine the public finances and they were committed to take actions to change rules and work up greater tax information exchange. “Profits should be taxed where economic activities deriving the profits are performed and where value is created.” – declares the summit.<sup>11</sup>

The Organisation for Economic Co-operation and Development (hereinafter OECD) has important role in the battle against tax evasion and avoidance. In February 2014 the OECD presented a new standard on Automatic Exchange of Financial Account Information<sup>12</sup> which is a new global standard on automatic exchange of tax information.

A White Paper of the European Union on the European governance draws up five principles of good governance which are openness<sup>13</sup>, participation<sup>14</sup>, accountability<sup>15</sup>, effectiveness<sup>16</sup> and coherence<sup>17</sup>. In the international practice there are great differences in these fields. On one hand it looks further than Europe and contributes to the discussion on global governance, on the other hand emphasises that “civil society must itself follow the principles of good governance, which include accountability and openness.”<sup>18</sup>

In 2013 the European Union created a Platform for Tax Good Governance (hereinafter Platform). The tax authorities of all Member States furthermore organisations representing business,

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10 See Gov.uk (2013): UK Presidency of G8 2013, Available at <https://www.gov.uk/government/topical-events/g8-2013>, last accessed 2014-03-27

11 G20 (2013): G20 leaders' declaration, St Petersburg, September, 2013, p. 12, Available at [en.g20russia.ru/load/782795034](http://en.g20russia.ru/load/782795034), last accessed 2013-04-07

12 OECD (2014): Standard for Automatic Exchange of Financial Account Information, Available at <http://www.oecd.org/ctp/exchange-of-tax-information/Automatic-Exchange-Financial-Account-Information-Common-Reporting-Standard.pdf>, last accessed 2014-03-27

13 „The Institutions should work in a more open manner. Together with the Member States, they should actively communicate about what the EU does and the decisions it takes. They should use language that is accessible and understandable for the general public. ...” European Commission (2001): European governance – A white paper, COM/2001/0428, Available at <http://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:52001DC0428&qid=1397384041221&from=EN>, last accessed 2014-04-03 (hereinafter European Commission 2001)

14 „The quality, relevance and effectiveness of EU policies depend on ensuring wide participation throughout the policy chain – from conception to implementation. ... Participation crucially depends on central governments following an inclusive approach when developing and implementing EU policies.” (European Commission 2001)

15 „Roles in the legislative and executive processes need to be clearer. Each of the EU Institutions must explain and take responsibility for what it does in Europe. But there is also a need for greater clarity and responsibility from Member States and all those involved in developing and implementing EU policy at whatever level.” (European Commission 2001)

16 „Policies must be effective and timely, delivering what is needed on the basis of clear objectives, an evaluation of future impact and, where available, of past experience. Effectiveness also depends on implementing EU policies in a proportionate manner and on taking decisions at the most appropriate level.” (European Commission 2001)

17 „Policies and action must be coherent and easily understood. The need for coherence in the Union is increasing: the range of tasks has grown; ...” (European Commission 2001)

18 European Commission (2001)

tax practitioners and civil society are members of this Platform. As a helping body of the EU Commission it works on initiatives to foster good governance in tax matters in third countries, to tackle aggressive tax planning and reconsider double taxation conventions.<sup>19</sup> Improving the economic situation with tax cooperation, exchange of tax information is a nice goal, but it cannot be hidden that for the success many direct commercial interests have to be given up.

### 3. SOME CHANGES FROM THE HUNGARIAN TAX REGULATIONS

In this section I will shortly describe some points of tax changes in the Hungarian tax law of the past few years, focusing on the tax good governance. Interviews were made with companies, tax officers and individuals on taxation in Hungary with the purpose of collecting responses about the tax changes.

#### 3.1. *Setting up a company*

Starting business in Hungary was quite easy until 2012 when a new procedure, the tax registration process was introduced pursuant to the Act XCII of 2003 on the rules of taxation (hereinafter Taxation Act). Before 2012 there was no investigation about the “past” of the company establishers. E.g. high public debt from their previous enterprise did not keep them away from getting a tax number which is the basis of running businesses. The goal of the process is to strain the “tax payers” who want to establish new company for tax evasion and not for substantive business activity. Since the tax registration method entered into force the National Tax and Customs Administration of Hungary (hereinafter NTCA) examines if the member or executive officer of the company “left” public debt from previous businesses. The NTCA can reject the issuance of the tax number of the company.<sup>20</sup>

The method – despite all of the weaknesses of the regulation – was very welcomed among tax officers working on monitoring.

The next step for improving the regulation could be stricter rules trying to clean the system of “silent partner” relations.

#### 3.2. *Online cash registers*

In 2012 preventing value added tax<sup>21</sup> fraud the Hungarian government made a decision that about 400 thousand cash registers will be fitted with a device that will establish a direct online

19 See European Commission (2013): Platform for Tax Good Governance, Available at [http://ec.europa.eu/taxation\\_customs/taxation/gen\\_info/good\\_governance\\_matters/platform/index\\_en.htm#section\\_3](http://ec.europa.eu/taxation_customs/taxation/gen_info/good_governance_matters/platform/index_en.htm#section_3), last accessed 2014-04-03

20 - Within the previous 5 years the public debt exceeded HUF 15 million (in case of the largest taxpayers HUF 30 million) through 180 days.

- If the company ceased because of having a public debt of the amount mentioned above.

- If the company's tax number has been deleted. (see Taxation Act)

21 Consumption tax on goods, services and imports of goods into Hungary.

connection with the NTCA.<sup>22</sup> In Sweden cash register legislation became effective 1 January 2010. Hungary was not the first EU country where cash register legislation was enacted, but at that time the Hungarian regulation was the most high-tech version in Europe. Later on Germany, Poland, Sweden and also Greece began to study the Hungarian method.<sup>23</sup> Following the Hungarian example Croatia decided about the use of online cash registers that have been mandatory since 2013, and the reported turnover increased nearly one-third in the first month of the operation of the system.<sup>24</sup>

According to the data of the Hungarian Central Statistical Office<sup>25</sup> the revenue effects of the online cash registers seem to be positive.

Not only businesses but also individuals emphasized in their opinion that the mechanism will definitely help to clean the shadow economy. Businesses gave positive feedback about the financial support from state to the exchange of machines.

### **3.3. Spreading reversed taxation in VAT**

The VAT reverse charge method is an anti-fraud measure in the field of value added tax. In the European Union a directive allows the member states in certain specific cases to use this technique. The customer, instead of the supplier, has to account the VAT to the tax office and is liable for paying the tax.<sup>26</sup>

In 2006 the Hungarian tax law established the application of reverse charge taxation to waste materials. Since then the group of applicable goods and services has broadened, e.g. in the Act CXXVII of 2007 on Value Added Tax (hereinafter VAT Act) we can find certain services relating to immovable property, trading in greenhouse gas emission rights. During the past few years the scope of reversed taxation further broadened. In order to battle tax fraud in agriculture, since 1 July 2012 the regulations have been applied for trading between domestic taxpayers for certain cereals, protein crops and oilseeds. Starting 1 April 2013 domestic reverse charge rules have been introduced in the pork trade.

Since the method has proved successful in several fields and it can be stated as “best practice”, Hungary tried to introduce it in the sugar trade where substantial VAT fraud has been

22 Kormany.hu (2012): Minister Matolcsy announces new fiscal package, October 5, 2012, Available at <http://www.kormany.hu/en/prime-minister-s-office/news/minister-matolcsy-announces-new-fiscal-package>, last accessed 2014-03-25

23 Onlinekassa.hu (2013): Egész Európa a magyar kasszákat tanulmányozza, 2013. december 06., Available at <http://www.onlinekassa.hu/hirek/osszes-hir/712-egesz-europa-a-magyar-kasszakat-tanulmanyozza>, last accessed 2014-04-02

24 Trademagazin.hu (2013): Online cash machines are succesful in Croatia, 2013. 03. 22, Available at <http://www.trademagazin.hu/en/hirek-es-cikkek/piaci-hirek/bevalt-az-onlinekassa-horvatorszagban.html>, last accessed 2014-04-03

25 Központi Statisztikai Hivatal (2014): A központi költségvetés bevételei, Available at [http://www.ksh.hu/docs/hun/xstadat/xstadat\\_evkozi/e\\_qse006g.html](http://www.ksh.hu/docs/hun/xstadat/xstadat_evkozi/e_qse006g.html), last accessed 2014-04-03

26 European Council Directive 2006/112/EC on the common system of value added tax

going on with the participation of Slovak enterprises for many years. The European Commission rejected the request, the last time in April 2014<sup>27</sup>.

According to the businesses interviewed the high level of standard rate is the biggest problem connected to VAT. The respondents would propose lower standard rate which could help to clean the shadow economy because VAT fraud would not be a “big business” anymore.

It is a fact that Hungary has the highest standard rate of value added tax in the European Union with 27 %<sup>28</sup>.

### 3.4. Duty on onerous transfer of property for import vehicles

Importing vehicles into Hungary is a good business. Since 2014 it has higher cost because all vehicles including imported ones are subject to duty on onerous transfer of property (see Act on duties). Table 1 illustrates the duties on onerous transfer of property of vehicles and trailers.

**Table 1 • Duties on onerous transfer of property of vehicles and trailers, 2014**

Acquisition of vehicle ownership	Capacity of vehicle power engine (kW)	Age of vehicle from the date of manufacturing		
		0 – 3 years	4 – 8 years	above 8 years
	0 – 40	550 HUF <sup>1</sup> /kW	450 HUF/kW	300 HUF/kW
	41 – 80	650 HUF/kW	550 HUF/kW	450 HUF/kW
	81 – 120	750 HUF/kW	650 HUF/kW	550 HUF/kW
	abowe 120	850 HUF/kW	750 HUF/kW	650 HUF/kW
Acquisition of ownership of trailer	below 2500 kg	HUF 9000		
	abowe 2500 kg	HUF 22 000		

SOURCE: HUNGARY'S ACT XCIII OF 1990 ON DUTIES

### 3.4. Stability Savings Account – Tax amnesty

The Stability Savings Account<sup>29</sup> (hereinafter SSA) is a long-term investment account applicable since 2013, within which untaxed income can be deposited anonymously. Individuals

27 European Commission (2014a): Communication from the Commission to the Council in accordance with Article 395 of Council Directive 2006/112/EC, COM/2014/0229, Available at <http://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:52014DC0229&qid=1399468521610&from=EN>, last accessed 2014-05-02

28 See European Commission (2014c): “VAT Rates Applied in the Member States of the European Union.”, Available at [http://ec.europa.eu/taxation\\_customs/resources/documents/taxation/vat/how\\_vat\\_works/rates/vat\\_rates\\_en.pdf](http://ec.europa.eu/taxation_customs/resources/documents/taxation/vat/how_vat_works/rates/vat_rates_en.pdf), last accessed 2014-04-10

29 See Hungary's Act CXCIV of 2011 on the economic stability of Hungary and Hungary's Act CXV of 2013 on the amendment of certain economical law

have opportunity to open the SSA at a credit institution with the minimum initial deposit of HUF 5 million. SSA is an instrument of financing the budget deficit because on the securities account only government bonds denominated in Hungarian forints, issued in Hungary or another European Economic Area country, may be accounted.

Responding individuals, the “average people” were not aware of the SSA.

However, individuals have a stake in beginning to use the opportunity to clean their money. According to the data of the NTCA from December 2013 until April 2014 on 74 bank accounts more than HUF 6 billion was collected.<sup>30</sup>

On the basis of the reviewed tax regulations and the answers of the Hungarian respondents, hypotheses 1, 2 and 3 are confirmed.

#### 4. CONCLUSIONS

In 2013, after nine years, Hungary was freed from the EU excessive deficit procedure<sup>31</sup>. A few days before my finishing this paper the Economic Forecast for Hungary was published by the EU Commission and the figures are quite optimistic, see Table 2.

**Table 2 • European Economic Forecast for Hungary, Spring 2014**

	2012	2013	2014	2015
GDP growth (% yoy)	-1,7	1,1	2,3	2,1
Inflation (% yoy)	5,7	1,7	1	2,8
Unemployment (%)	10,9	10,2	9	8,9
Public budget balance (% of GDP)	-2,1	-2,2	-2,9	-2,8
Gross public debt (% of GDP)	79,8	79,2	80,3	79,5
Current account balance (% of GDP)	1,1	3,1	3	2,7

SOURCE: EUROPEAN COMMISSION (2014B)

30 Hirado.hu (2014): Már több mint 6 milliárd, adózás alól kivont összeget legalizáltak, 2014. 04. 26., Available at <http://www.hirado.hu/2014/04/26/mar-tobb-mint-6-milliard-adozas-alol-kivont-osszeget-legalizaltak/>, last accessed 2014-05-04

31 „The excessive deficit procedure is governed by Article 126 of the Treaty on the Functioning of the European Union, under which the Member States are obliged to avoid excessive deficits in national budgets.”, Europa.eu (2014): Excessive deficit procedure, Available at [http://europa.eu/legislation\\_summaries/glossary/excessive\\_deficit\\_procedure\\_en.htm](http://europa.eu/legislation_summaries/glossary/excessive_deficit_procedure_en.htm), last accessed 2014-05-05

“After increasing by 1.1% in 2013, Hungary’s economy is expected to grow by around 2¼% and 2% in 2014 and 2015, driven mainly by domestic demand. Unemployment is projected to decline slightly, while inflation is expected to pick up gradually as the output gap closes. The government deficit remained broadly stable at 2.2% of GDP in 2013, but is forecast to rebound to close to 3% this year and next” – states the document<sup>32</sup>.

The Hungarian government is henceforward under pressure because of high public debt. Consolidation of public finances is needed not only in Hungary but also in several other EU member states and non-EU countries. Accordingly, it is not surprising that current tax measures are focusing on raising tax revenues worldwide.

If I come back to the headline of this paper “Good governance in the field of taxation”, I would emphasize there are efforts on many levels to move to the direction of transparency in the taxation. Nowadays the main point of good governance in the field of taxation means sharing the information about tax payers. Closing the tax loopholes could be the best solution but the lobby against it is very strong.

Today’s hyper-regulatory economic environment in the future will be even more regulated. This brings many new challenges for countries, tax offices, businesses and individuals.

Offering competitive and sustainable tax regimes should receive more attention in the future. Protecting the financial interests of the states has priority nowadays.

To sum up the way in which the taxation policies in the developed world are formulated, states should act with more commitment. With this kind of tax policy there would be a chance to respond properly to the increasing demand for the welfare state. It’s time to re-think many things.

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32 European Commission (2014b): European Economic Forecast Spring 2014, Forecasts for Hungary, Available at [http://ec.europa.eu/economy\\_finance/eu/countries/hungary\\_en.htm](http://ec.europa.eu/economy_finance/eu/countries/hungary_en.htm), last accessed 2014-05-05

# •book review

András Patyi – Ádám Rixer (Eds.)

## HUNGARIAN PUBLIC ADMINISTRATION AND ADMINISTRATIVE LAW

*Resume from the foreword by István Kukorelli (Professor of Public Law, DSc.) Head of Department of Constitutional Law Eötvös Loránd University, Faculty of Law*

The system of Hungarian public administration has gone through major institutional and legal changes in the past three-four years. This English language publication, *Hungarian Public Administration and Administrative Law*, presents the system of today's Hungarian public administration to foreign readers – its constitutional bases, main functions (for example public finances, public services), its main institutions, procedures, sanction system, staff – by paying special attention to the aforementioned changes. Moreover, it must be mentioned that some of the essays shed light on the history of public administrative institutions and draw their course of development.

The book may be important and instructive because the increase in significance of public administration and the growth of the number of its tasks have been worldwide phenomena both in legislation and in law enforcement. In the opinion of some experts, this course of development has been predestined, and there is a forming 'public administrative state', as separate branch of power, which focuses on results and seems to be independent from the executive. Partly due to these phenomena, constitutional requirements defined for public administration, the theory of constitutional public administration gain significance again and again. The essays of this book specifically focus on these rule-of-law requirements, among others the following:

- subordination to law and legality of public administration;
- the wide-scale supervision of public administration by external constitutional institutions.

Separate essays deal with public administrative law, the right to good public administration, administrative courts, and the control role of the prosecutor and the ombudsman over public administration. The social control and publicity of public administration may be facilitated by the civil relationships of public administration and the quasi public administrative organizations.

The book pays special attention to the modernization of public administration, e-public administration and info-communication.

Even though the publication was realised in the cooperation of the Lajos Lőrincz Research Centre for Public Law of the Károli Gáspár University of the Reformed Church, Faculty of Law and the National University of Public Service – its editors are András Patyi and Ádám Rixer – the scope of authors includes almost the whole of today's science of Hungarian public administrative law and the departments and law faculties teaching this subject. A separate essay studies the past and present of the science of Hungarian public administrative law.

The book may appear for the foreign reader as a descriptive, critically evaluating and extremely informative publication. It uses various legal sources and studies the main case law, as well. Its authors and editors aimed at facilitating understanding by unifying legal terminology and definitions, and by using internationally accepted professional terms.

This publication is the scientific work of the representatives of the science of Hungarian public administration, and the majority of its authors, editors and lecturers are members of the Hungarian Academy of Sciences, Section of Economics and Law, Committee of Public Administration. Based on this, I gladly recommend this book to all interested readers.

### *Resume from the Editors' Preface by András Patyi and Ádám Rixer*

The public administration system and the administrative law of a country have constitutional significance. What the public administration of a country is unable to implement from the constitutional provisions, nobody else will implement.

This book presents Hungarian public administration and administrative law. These are the legal tools of a country which was the last of the Eastern-Central European states to approve its new Constitution (Fundamental Law of Hungary). Of the country which did its best to shape democratic structures, which revolted in 1956 and fought against the Soviet empire. The revolution was suppressed, but its impact has been alive ever since. Decades later, in 1989-90, as an impact of that revolution, a democratic transformation began, and the establishment of democratic public administration, not obliged to adopt foreign patterns, was launched.

The current state of affairs in Hungarian public administration is a result of the 25 years that have passed since the changes in 1989-90. A lot of things have changed for these

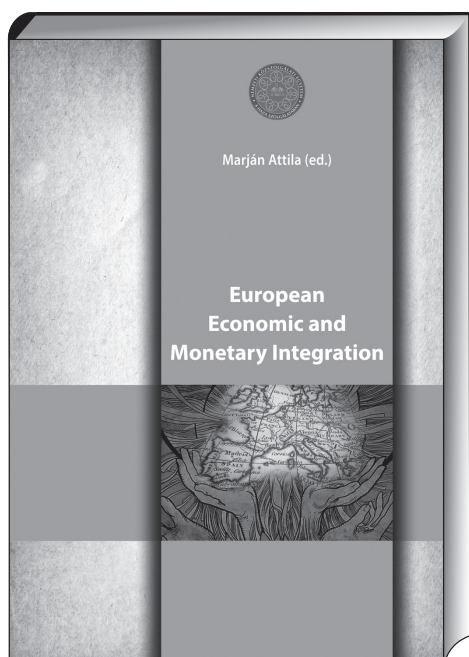
25 years, as a lot had to be changed. These changes were justified not only because of the establishment of democratic rule of law in the country. The alliance relations of the country have also changed, Hungary joined NATO and the EU; moreover, immediately after the accession agreement in 1994, full legal harmonization was launched. Countries had new challenges to face worldwide. Such new tasks, new challenges, coupled with technical development, required new solutions, new organs and procedures in public administration. Our EU membership also meant that the indirect application of EU law by the public administration organs of the member states required new and modern public administration culture.

While Hungary has centuries-old traditions (both good and bad) in public administration, there was a need to adopt the solutions and models of other countries and those of the EU.

The systems of public administration in modern states are complex and complicated, even in a small country like Hungary with a population of 10 million. Yet the systems of these states, although complex, are different. No two systems of public administration are alike.

Small countries regard their public administration as a value helping to preserve and express the constitutional identity and independence of the nation.

It is understandable that science focuses on and researches the public administration procedures and organizational systems of large, model states. Nevertheless, the solutions of smaller countries may present a model or an example not just for large states but for each other, as well. For this it is inevitable for these states to become familiar with each other's public administration and public administration law. The present book aims at providing help with this activity.



## European Economic and Monetary Integration

(EDITED BY MARJÁN ATTILA)

This volume discusses European economic and monetary integration in eleven chapters that cover the internal market, the Economic and Monetary Union, taxation and customs union, monetary policy, economic policy coordination. Part Two gives an assessment of some of the key elements of European political economics including crisis management efforts and potential political consequences of the crisis.

The objective was to present an up-to-date university text-book for European studies and international finances majors.

# International Protection of Human Rights

(EDITED BY TAMÁS LATTMANN, BALÁZS VIZI)

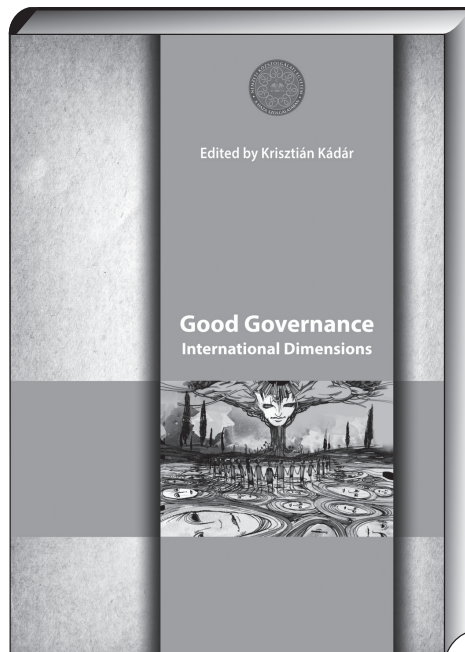
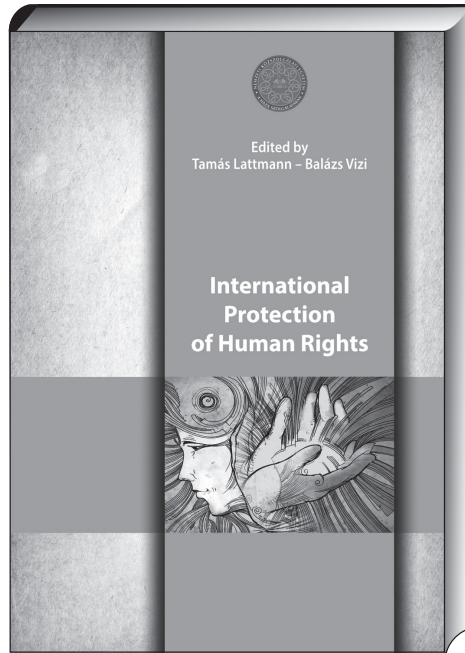
The book gives an overview of the law and institutions of international human rights protection. Based on the latest developments, it analyses both the universal and regional levels and besides of serving as a textbook of university-level general international human rights law courses, it is also a handy reference to further research on the field.

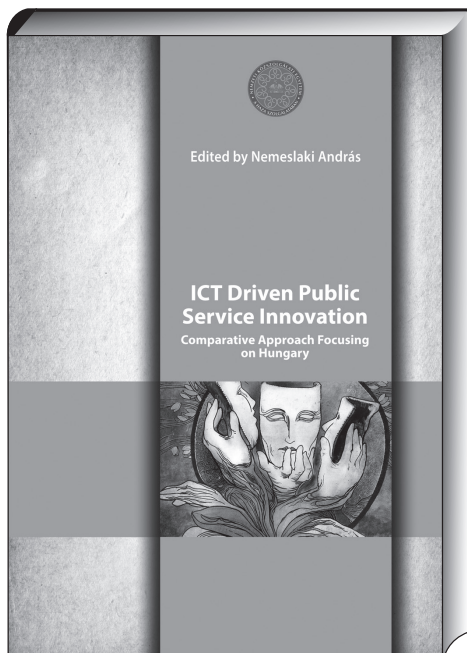
# Good Governance International Dimensions

(EDITED BY KRISZTIÁN KÁDÁR)

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.

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. 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.





## ICT Driven Public Service Innovation

*Comparative Approach Focusing on Hungary*

(EDITED BY ANDRÁS NEMESLAKI)

The book in about 200 pages introduces those possibilities that infocommunication technology can bring to the field of public service in order to modernise it and also examines the effects of infocommunication technology on the innovation of several field of public service. Twelve authors – including one Austrian and one Australian – published their own chapters about their own original researches and about their analysis of the comparison of national and international e- public service models.

The internationally embedded comparison along with the latest and current range of subjects and chapters give an up to date character to the book which were logically constructed and carefully edited. The authors introduce influential innovation models of the ICT era, significant trends that effect organisational innovation, issues related challenges of e-government development such as issues of interoperability and e-preparedness, conceptions of services beyond borders, the application of the field of disaster management and law enforcement, the relation of the political communication and public media, the risk of information security and finally the importance of the application of the futurology in order to be able to reflect upon the changes of ICT trends.

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# Call for Papers

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The academic journal of Pro Publico Bono-Public Administration edited by the National University of Public Service aims to provide platform for publishing academic articles written in the field of public service.

The aim of the paper: Publishing researches and professional experiences in the fields of public service, public management and public politics, further more enhancing the interaction between the academic views and practical implementation, along with advertising the knowledge regarding the development in the quality of public administration.

We are looking forward to receiving articles in the following columns:

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The aim of this column is providing opportunity for scholars in the field of public administration to exchange experiences, to introduce new practice, and to present recent innovation in the field of public service.

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The aim of this column is presenting the research developments in the field of international and social sciences with special focus on the strategy and practice of international public service, on the cooperation and advancement of European public administration system, on the endeavor of EU, and on the programme of the development in public administration produced by different international organisations.

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## CONDITIONS OF PUBLISHING

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Please send an English abstract, which should be no longer than 1500 n. In order to enable the reader to have contact with the authors, the authors should allow the readers know information such as the author's position, place of employment, academic title, contact details such as e-mail address. These contact details are published in the 'Authors of the current volume' column.

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# Hungarian Public Administration and Administrative Law

*The system of Hungarian public administration has gone through major institutional and legal changes in the past three-four years. This English language publication, Hungarian Public Administration and Administrative Law, presents the system of today's Hungarian public administration to foreign readers – its constitutional bases, main functions (for example public finances, public services), its main institutions, procedures, sanction system, staff – by paying special attention to the aforementioned changes. Moreover, it must be mentioned that some of the essays shed light on the history of public administrative institutions and draw their course of development.*

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