Centralisation in one step. Centralisation and decentralisation in Hungary from a public services perspective¹

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Abstract: *It is very difficult to group countries and state structures according to the extent of their decentralisation or the model they follow in the spatial distribution of power.*

The strengthening of local municipalities and the almost continuous evolution of their role reflects the steady downsizing of public services provided by the state and the extension of market circumstances. Until the economic crisis in 2008, the importance of state redistribution increased in almost each of the developed countries, more and more nation state functions were centralised under the authority of international organisations, and the “curtailment” of national governments’ authority occurred in tandem with the strengthening of the local state, i.e. municipalities.

The study exploring the issue of centralisation and decentralisation does not seek to unearth the relationship between the two concepts, but to examine from the point of view of consumer satisfaction how such a hastily implemented reform is able to respond to consumer demands.

It also examines how those concerned by the financial and political changes, i.e. the population perceived this most important structural transformation of the period since the transition in 1989. Can it be verified from the consumers’ point of view that the transformation of the local municipal system improves the quality of service provision? The study reviews the process and social reception of the largest-scale administrative reform in Hungary post-1989 (with a primary focus on public services) using data from an extensive survey (representative of settlement type and sociodemographic variables).

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Keywords: *Local government, centralisation, decentralisation, local public service structures, Hungary*

Introduction

Despite significant changes in the Hungarian system of public law (whose order of magnitude can be compared to the regime change) post-2010, the fundamental modification of the local government system and the spatial structure of the state have not attracted much professional debate or social or municipal opposition. The study outlines the main frameworks of this transformation as well as its implications on the delivery of public services. The study does not primarily seek to assess how centralisation compares to the previous allegedly more decentralised system of local government, but how the centralised decision-making system has modified the tasks of local governments and how local residents perceive these changes.²

The outbreak of the Covid-19 pandemic in Hungary and the restrictions triggered by the epidemiological crisis situation in the aftermath of the global recession may provide valuable insights into the process of “re-centralisation” in Hungary. Crisis situations in general highlight the need for centralised decision-making, as turbulent situations demand instantaneous responses and rapid decisions, accentuating the role of central governments. A review of the methods and measures employed by individual governments in the framework of crisis management may yield useful insights. Hungary provides an interesting example of crisis management, having already performed extensive centralisation in the system of public administration (ranging from health and education to local government) in the pre-pandemic period. Our interest lies not so much in the specific methods of crisis management employed in a centralised country but in the government’s willingness to seek partners under the pretext of the epidemic crisis or further centralisation.

Theoretical frameworks and problematisation

The public administration and/or state and municipal reforms implemented in Europe over the past decades can basically be grouped according to the often contradictory responses given to the questions about the re-definition of the role of the state and the economic efficiency of public services (Kákai, 2009: 134–135). A wide array of theories may provide the theoretical underpinnings of

2 The survey raised questions about functions ensured by local governments either before or after the reform.

the fundamental question of the study, ranging from the study of local autonomy to the strand of financial federalism, used extensively to understand the process of centralisation-centralisation.³ The theory of financial federalism,⁴ gaining wide popularity over latest fifty years is particularly helpful in the scientific understanding of the centralisation/decentralisation process (Musgrave, 1959). The central element in the focus of initial theories was decentralisation (Szalai, 2020: 424) as the only factor capable of limiting the centralisation of power owing to the fact that local governments could provide more flexible and more controllable public services that met actual consumer preferences (Tiebout, 1956; Oates, 2005).⁵ Later, the theorems of information economics with their origins in the science of economics were incorporated into the frameworks of fiscal federalism as new elements, owing to which the stress shifted from the effectiveness of financial relations between governments to local income and resource generation (Vígvári, 2009: 709). At that time, the provision of public services was progressively replaced by the local economy organising and development role of municipalities. These theoretical trends dominated the '70s and the '80s as well, fostering the emergence of several trends dealing with local politics, such as the localist approach or the new theory of better or community choice as well as the thesis of the dual state or the theory of relations between the local state and society that together provided the theoretical framework of the almost continuous⁶ transformation (Kákai, 2013) of local municipal systems.

The classic models of fiscal federalism required revision over time (Dafflon-Madies, 2011). The optimum of centralisation/decentralisation is conditioned by highly complex, spatially and temporally variable factors, which renders the establishment of universal laws problematic (Charbit, 2011). It is a well-established fact though that any extent of decentralisation of tasks and responsibilities has to be accompanied by a transfer of the necessary resources, since the absence of financial autonomy calls decision-making autonomy into question. This implies that own revenues and central budgetary transfers are prevalent in all advanced states with a multi-level system of financial governance and can be arranged into different models according to their respective proportions. The authors of the so-called 'decentralisation index' have already distinguished between administrative, political, decision-making, qualitative and quantitative financial and executive decentralisation and found that

3 Economic issues such as access to government public services, local taxes, and representative local government structures are of particular relevance to the present research (Lapidoth, 1997: 184–193).

4 This depicts the phenomenon of government units engaging in economic interactions with one another to articulate various public service preferences.

5 These theories postulate the existence of various local public goods and services, which are characterised with spatially heterogeneous demand. The authors categorise all public services as such whose production is locally anchored.

6 From the '60s to our days.

economically well-performing countries tend to show a greater level of decentralisation.

A change in attitudes was provoked by a series of mainly financial crises that culminated in the global financial crisis of 2008. The reason for this was that the nascent smaller and cheaper states were unable to tackle their problems efficiently. In this case, a small and cheap state was co-terminous with a weak one. As for governance-like, 'hybrid' state systems, criticism was mainly triggered by the lack of transparency and democratic legitimacy (Peters and Pierre, 2006). Consequently, the so-called 'neo-Weberian state' concept stressed the enhancement of state functions as compared to the past, the requirement of providing quality services in a professional way, the extension of citizen and public administration consultations and the spread of result-based attitudes. 'Returning' to the Weberian heritage practically emphasised a reinforcement of state functions and the importance of regulative and control functions of public administration, as well as of public services. Although the model cannot be regarded as a new paradigm of governance, in many countries it has brought about significant shifts, relegating the prestige and field of prevalence of New Public Management into the background (Dreschler and Kattel, 2009).

To sum up the above approaches, individual theories have not crystallized around the special features of centralisation/decentralisation, but rather the deterioration or amelioration of the local delivery of services and corresponding consumer satisfaction in a centralised decision-making and financing system. The conceptual framework of the centralisation/decentralisation dichotomy has remained quite stable in recent decades, leading to a profusion of similar aspects, arguments and counter-arguments in the different comparisons (Begg et al. 1993, Linder 2002). There has been growing consensus on the decisive role of context. Based on the advantages and disadvantages enumerated in the literature, the nature and extent of decentralisation corresponding to certain times and areas appears to be a question of professional and political judgement. Decentralisation is context-dependent, its benefits are not automatic, and decentralisation and centralisation can refer to a whole range of *de jure* or *de facto*, administrative or political processes (Hutchcroft, 2001).

In Hungary, there were two options that facilitated the durable maintenance of the balanced regulatory result (Weingast, 2009).⁷ The first was the option of economies of scale which emphasises the differentiation of tasks between units of local governments of various size. The other solution was that smaller municipalities provide the service functions exceeding their order of magnitude within the frameworks of consciously organised integration entities. Practically, these were the two ways by which the municipal structure, which was apt to

⁷ Integration of the exercise of functions, both from the point of view of the organisation of public administration and in terms of the politics of public administration.

give a framework to the domestic financial, historical and settlement structure challenges and endowments, had to be found.

Methodology of the research

The research analyses the relations of local governments. Its main objective is to clarify and analyse the role of the state in public services and public service delivery. International academic debate is often centered around identifying the government model that meets the evolving challenges of globalisation, and the provision of efficient, short- and long-term cyclical responses to complex social, economic, cultural and developmental problems.

The applied methodology for examining the above issues rests on two pillars. One implies the collection of secondary information (desk-based research), i.e. the processing, systematisation and analysis of existing data and information. For the purposes of the research, a population survey was ordered by the National University of Public Service.⁸ The survey was based on a sample of 1,500 inhabitants that was representative in terms of settlement size, level of education, gender and age group⁹ (Kákai, 2019). The study investigated public perceptions of the availability of local public services, the subjective expectations associated with the objective conditions characterising the public service system. Its aim was to unearth individual perceptions of the centralisation of government in public services, i.e. the importance that individuals attach to whether a given service is provided by the state, local government, non-profit or for-profit organisations and whether they notice the difference between the quality of public services and the identity of the service provider.

In the sampling for the purposes of the questionnaire, the main priority was to ensure that the surveyed settlements are representative of the full spectrum of Hungarian settlements. The analysis was primarily focused on public services that were represented in the case of the analysed settlements.

Frameworks of public administration structures

Geographical division is highly contingent on the size of the states and their population but first and foremost, on the political-ideological objectives and system of conditions of social organisation and direction (Hajdú, 1994). Concerning their constitutional legal status, tasks, authority and organisational system, municipal systems show a very diverse picture in Europe. In terms of the constitutional position and role of the local-territorial municipality and the central-local relation systems, international literature distinguishes three big

8 The research was implemented within the framework of the flagship project no. KÖFOP-2. 12. -VE-KOP-15-2016-00001, entitled "*Public service development basing good governance*".

9 The research was implemented between 18th July 2018 and 18th August 2018.

country groups (Hesse, 1991) of developed democracies¹⁰: the French or Napoleonic, the Anglo-Saxon and the mixed or continental model. John Loughlin (2001) provides further precision of this methodological framework by dividing and distinguishing between the systems built on German and Scandinavian traditions. Later, Loughlin (2007) refines his typology of local governments focusing on the transformation of state models and the interactions between various levels of government. He distinguishes between three stages of development: the first i.e. the era of the welfare state was dominated by the national level, marked by administrative decentralisation, and territorial actors were 'agents' of central government. With the partial crisis of the welfare state and the emergence of new, neoliberal forms of governance and actors, the trends of reform processes became more diverse. This period saw the (primarily) local-level decentralisation of public services. The third era shifted the balance between the public and private sectors and the various governmental tiers in favour of regions. The role of territorial actors in development policy became more prominent. The trend was therefore one from hierarchy to equality between levels, from uniform to asymmetric solutions, and in terms of content, from administrative deconcentration to political decentralisation, from public services to economic development.¹¹ The contours of the post-2010 era were somewhat blurred due to the emergence of so-called Neo-weberian elements (Dreschler, 2009). The question (extending beyond the scope of the study) is whether the process can be characterised as a mere correction or a radical and wholesale reversal of the governance model of the neoliberal era, with the generalisation of centralisation setting the stage for a new era of reform (Pálné, 2014: 22).

According to this classification, Hungary created its state structure by mixing French and German traditions. The creation of the Hungarian constitution and governmental structure was highly influenced by the public administration and legal structure of the German Federal Republic. At the same time, concerning the structure of the public administration-organisational system, Hungary's constitution and governmental system was not federal; rather, it was uniform or Unitarian.¹² Nevertheless, the act on self-governance, passed in 1990,

10 It is important to emphasise the fact that this distribution is not only apt to describe territorial structures.

11 The change is also detectable in the international literature, since local government systems were distinguished fundamentally by their competences, fiscal position and power relations even as late as 2006 (Heinelt – Hlepas, 2006). In addition, there are also comprehensive analyses (Swianiewicz, 2014) that complement the typology by Hesse or Laughlin with further aspects (e.g. number of elected local and regional authorities, functional and financial decentralisation, subsidy system, municipal debt, power relations, mayor's position, local electoral system, etc.), from the perspective of Eastern European countries. Other works that quasi 'measure the degree of decentralisation/local autonomy' can also be mentioned here (Ladner et al. 2019).

12 This means that the constitution acknowledges the right of self-governance of the settlements, however, it does not give any content details, not even in terms of municipal tasks. This model assures a narrower scope for local authorities (e.g. the operation of municipalities can only be regulated by act, thus the

established a strong and decentralised system of territorial municipalities¹³ that had the following main features (Soós and Kákai, 2010):

- Decentralisation without enforcing subsidiarity;
- Despite the constitutional status, maintaining a strongly centralised system through the allocation of state-controlled resources;
- Adopting Napoleonic traditions, i.e. one settlement, one local government principle, which resulted in a fragmented system of local governments.

Asserting the above characteristics seemed easier since municipal decentralisation had no strong traditions in Hungary. Forceful centralisation was dominant not only in the state socialist era between 1950 and 1990 but in most of the earlier periods of state development as well.

Between 1990 and 2011, in a practically unique way, the Hungarian municipal system assured a very wide range of rights for local governments and the institution of local governance was entrenched by a so-called ‘cardinal’ act (demanding qualified majority), along with legal regulations put down in the constitution. These laws strengthened the autonomy and sovereignty of local authorities (within domestic legal frameworks). The only supremacy above their activities was legal supervision but even that was enforceable only with juridical approval. In terms of the legal conditions determined by the constitution and the Act on local governments passed in 1990, the local municipalities (that were either settlement or regional authorities) had a wide range of obligations in service provision (obligatory tasks), a large scope of action (voluntarily undertaken tasks and entrepreneurial activities) and a high level of financial independence (possibilities of having own incomes, normative central financing, being provided with properties or the possibility of starting business activities).

The paper presents the operation of the system and the strengthening of its internal contradictions, as well as the issue of centralisation and decentralisation by introducing the changes in two particular fields. One is the financial environment of the municipal system and the other is the direct contribution of local authorities to public service provision. The latter is a substantial issue because in terms of municipal capacities, it is important to present the scope left by the sectoral regulations for the local (settlement) decision-makers and the extent to which they can determine the conditions of providing local public services.

Relations between financial and municipal (public) tasks

Concerning municipal tasks, the Hungarian municipal system belonged to those with a wide range of responsibilities and general authority. The Act on

charging of taxes, the method of their collection as well as the authority and income resources of local governance).

13 Perhaps the term *decentralised Unitarian* is more precise.

local governments passed in 1990 regulated the issues of tasks, competences and functions in its very first chapters. By local public affairs charged on the local authorities, the legislator referred to the provision of public services for the population and to the practising of power in a municipal way. Thus, the function of local authorities is clear: organising public services and practising public power (regulatory and authority) rights.

The general range of the substantial public services provided by local authorities are laid down in the Act on local governments to this day. Until 2011, institution-focused public task provision was typical to Hungarian municipalities. Some of these were stipulated as obligatory tasks (although not acknowledged as civic rights), while others were described as optional or voluntary tasks. The other part of public services includes the organisational system of human public services. This set covers the institutions of public education, culture (museums, archives, cultural centres, etc.), healthcare and social care.

The set of municipal tasks has in fact permanently been extended during the last twenty years¹⁴ and the chief reason for this is that the sectoral laws have the right to impose obligatory tasks on local governments and to extend the content of the functions specified in the Act on local governments.¹⁵ As a consequence of competence regulation, municipalities had become overloaded with obligatory tasks by 2010, against the backdrop of permanently changing normative supports that mirrored the changing regulations on task provision.

Meanwhile, duties could also be transferred from the municipal side to the governmental sector without any restraint. This occurred in many instances in terms of mid-level functions where, instead of county municipalities, decentralised state organs and institutions were granted authority. There was a continuous transfer of tasks, several functions were moved from the municipality to the state sector (e.g. public transport, nature and environmental protection, sports, the protection of built heritage, trade and market control, consumer protection, agricultural and land administration, etc.). In human public services, functions developed in parallel within municipal and state organs (e.g. education, pedagogical services, family care, guardian affairs or the central hospitals in healthcare, etc.) The role of county development commissions became formal and most of their competencies in decision-making ‘shinned up’ to the regional commissions. Hence, the counties were ousted from tender calls and had no possibility to maintain infrastructure (water, sewage or waste).

14 According to the Report no. 0012 of 2000 of the State Audit Office of Hungary, the central government burdened 3464 functions and responsibilities on the municipalities between 1995 and 1999, which were regulated in 351 legal measures (including 133 acts), available at: <https://www.asz.hu/hu/jelentesek/osszes-jelentes-2000-ev/2/>, 24th February 2020.

15 This practically meant that 23–27 percent of state expenditure was used at the local level, the equivalent of 12–13 percent of the GDP (Horváth et al. 2014: 337). By international comparison, this was a strong expenditure decentralisation (the average in the 27 EU countries was 17 percent).

The processes presented above clearly indicate that one of the problems of the municipal system having operated between 1990 and 2010 was system-level and resulting from the attempt to implement a mixture of the Northern European and the Southern European models (Torma, 2012). Namely, a fragmented settlement system was burdened with too many tasks and too high a level of service quality criteria. Our domestic municipalities were responsible for a wide range of tasks, similarly to the Northern European model which, in principle, meant that the cities with hundreds of thousands of inhabitants had almost the same rights as tiny villages with a few hundred people. Meanwhile, most of the Hungarian local authorities had a low population¹⁶ similarly to those in Southern Europe but contrary to them, our domestic municipalities were in charge of a wide range of public services and the mid-level municipalities – small regions and counties – received only the ‘rest’ of the tasks and were facing a continuous decrease of state support.

The Act on local governments passed in 2011¹⁷ effected considerable changes in local public service structures and municipal responsibilities. After the decentralisation experiment, the new central approach showed token strong centralisation in the spirit of a neo-Weberian¹⁸ philosophy.¹⁹ The process started with the appointment of government commissioners at county level and was later completed with the creation of the new constitution, the new act on local governments, the re-tailoring of the central and local governments’ task system and the reform of the finance system. The transformation of the municipal system can be taken as a local public task centralisation process implemented within a decentralised structure. The new regulatory system bringing about a strong centralisation of public service provision was closely connected to the financial consolidation of local authorities.²⁰

16 According to the data of 2018 by the Central Statistical Office, in 55 percent of the local municipalities, the population was below 1,000 and was less than 5,000 at 37 percent (1165). All this means that in 92 percent of the settlements, the population was under 5,000, available at: <https://uni-bge.hu/PSZK/Szervezeti-egysegek/oktatasiszervezetiegysegek/PENZUGYT/dokumentumok/Kozpenzugyek/2019.Onkormanyzatok.pptx>, 24th 2020.

17 Act. No. CLXXXIX. on the local governments of Hungary (Mötv.).

18 The core of this and its difference from New Public Management (NPM) is that while NPM strives to make the state switch over to market operation principles, the neo-Weberian model focuses on reconsidering the role of the state in terms of strengthening it.

19 In this spirit, the requirement of qualitative services and their professional provision, the extension of citizen and public administration consultations and the dissemination of result-based attitudes were given a stronger emphasis than in the previous governmental periods.

20 The crisis of the US mortgage market erupting in 2009 played a significant role in this, leading to a weakening of the Forint exchange rate, which was further exacerbated by the post-2010 economic policy, considerably raising the amount of credit due to the large open foreign currency position. As a result, the government had to take action. It assembled a debt consolidation package for debt management. In its framework, a total of 277 municipalities with more than 5,000 inhabitants had their debts of cca HUF 610 billion assumed by the state in June 2013 (Vasvári, 2020). In the two categories of municipalities (under 5,000 inhabitants and above), the state took over a total of HUF 694.2 billion

Post-2010, one of the elements of the changes in local governments' subsidies received from public finances was the introduction of so-called earmarked financing. Accordingly, local governments received a part of central budgetary financing as a difference of average planned expenditure and expected revenue (Horváth et al. 2014: 339). Although the shift to labelled financing was not 100%, the process implied a switch from the earlier normative financing system built mainly on unrestricted spending to a cost-oriented system of restricted spending.

In 2013, general support adjusted to the obligatory tasks of local governments was provided in the fields of municipal administration, settlement operations (street-lighting, public cemeteries, maintenance of public roads and green area management), specialist social care (institutional care) and public education (Tállai, 2014). In the case of social, children's welfare and cultural functions, task financing was not applied. From 2014 onwards, the system of task financing was extended to children's catering as well.

Owing to the changes in the legal regulations, larger settlements have greater authority.²¹ A new category of 'district town' was introduced; these settlements fulfil (mainly small regional public service) tasks for the whole district.

Table 1: Division of local tasks since 2011

Public service/task	Responsible for supply			Public service/task	Responsible for supply		
	Local authority	County self-government	State		Local authority	County self-government	State
local roads				sport and youth affairs			
national public roads				local transport service			
health care at basic level, outpatient clinic				regional transport service			
hospitals				water supply			
public education, secondary schools				potable water and sewage management			
training institutions				waste collection			
kindergarten education				regional development			
cultural services, museums				rural development			
libraries				spatial planning			
social care				economic and tourism development			
housing							

Source: Based on research by Pfeil, E. (2019: 55-57).

debts out of a total volume of credits of HUF 1182.46 billion at the end of 2012. This led to a significant improvement of the budgetary position of local governments post-2011, available at: http://hazaeshaladas.blog.hu/2012/11/05/onkormanyzati_adossagatvallalas_tenyleg_nullszaldo, 10th June 2015.

21 The model calculations made by Ilona Pálné Kovács et al. (2014) proved "the bigger the settlement, the more services provided" connection that shows bigger leaps in the population categories of 2,000 and 10,000 people; this picture is in line with the rules of the obligatory responsibilities allotted to local governments (Mezei, 2014). available at: <http://docplayer.hu/5950391-Zarotanutmany-a-hazai-onkormanyzatok-finanszirozasi-helyzeterol.html>, 2nd July 2018.

As indicated by the data collected and analysed by Pfeil (Table 1) the circle of mandatory tasks of local governments in Hungary was spectacularly reduced after 2010 and especially after 2014, in connection with the transformation of large public utilities and infrastructures.²² To sum up the changes, in the fields of energy, water and public sewer supply, waste and settlement management, the operation of public roads and local public transport, state contribution has become dominant. As a result of competence re-organisation, the range of tasks that local governments are obliged to fulfil has considerably narrowed. This phenomenon is clearly visible at both municipal county and settlement levels. County municipalities were deprived of all their public service functions (cultural centres, libraries, museums, archives, etc.), except for the task of regional development, which was strengthened. However, as underlined by the analysis of Gálosi-Kovács and Haffner (2017) county governments have only a formal position in the formulation of regional development plans, disposing primarily of administrative functions.²³

Apart from nursery school education, the basic tasks of public education were removed from the set of local public affairs. In the field of cultural services, the maintenance of museums was moved from county responsibility to the settlements. Similar processes were implemented in the case of public libraries. Essential changes were implemented in terms of social and healthcare institutions of human public services. Apart from basic social and healthcare services, all the tasks were moved under state responsibility. Previously, secondary grammar and technical schools, hostels, museums, libraries, archives, institutions providing special healthcare and elderly care homes were transferred to central authority and the belonging properties were nationalised.

The reorganisation of governmental tasks has entailed a drastic modification of local government expenditure (Figure 1.). In macroeconomic terms, from a public finance point of view, the change effected by the government measures altered the role of local governments in the system of public finances, modifying²⁴ (in Hungary's case, reducing) the extent of decentralisation and narrowing the circle of mandatory tasks of local governments (Sivák, 2014: 305). In 2012, the ratio of local government expenditure to GDP was only 9.2 percent, compared to 12.5 percent in 2010 (Horváth et al. 2014: 125). This trend has been ongoing. By 2018, the share of local government expenditure was a mere 6.3 percent.

22 Since the year 2010, in the course of the fundamental transformation of the decentralised system, the amount of tasks performed at the locality decreased by 29 %.

23 The ambiguity of the situation is illustrated by the legislation entering into force during the COVID-19 epidemic, according to which county municipalities were granted new powers only in the field of development and planning, while municipalities remained charged with the provision of municipal public services despite being deprived of one of their major sources of revenue (business tax) (Balázs – Hoffman, 2020: 14).

24 This indicates Hungary's shift from its position of a highly decentralised country to one of the most centralised compared to other OECD countries (OECD, 2019).

Figure 1: Evolution of local government expenditure as a percentage of GDP between 2009 and 2018

Source: Calculated on the basis on Eurostat data (2018) (Bordás et al., 2020: 94).

As a result of the changes, the bases of the general power grounding the responsibility and authority of the municipalities weakened and the principle of decentralisation and subsidiarity was strongly restricted as compared to the years before 2010. The centralisation process triggered profound changes in the provision of public services for the local population – they affected a substantial share of local public affairs.

The population's attitude to changes

The Act on local governments passed in 2011 transformed the local public service structures and municipal tasks considerably. The question is how the population has responded to all this. What characterises their perceptions of the municipal system? In their everyday lives, do they notice the difference between local public services, their quality and the identity of the service provider? This is especially interesting in light of the fact that according to the value surveys made from the transitional era until recently, the Hungarian population tends to underestimate the costs (tax expenditure) of state intervention and expects/anticipates/demands state intervention and redistribution also in terms of issues where (Csontos et al. 1996), in general, it would be more effective, cheaper and perhaps fairer to involve private or business resources (Tóth, 2010).

In ranking public services in terms of their importance, we have found that the main priorities of the population are issues related to local health services, local public security, and the development of local utilities and local roads

(Figure 2.). Issues related to education and municipal affairs are of secondary importance. Cultural affairs, leisure activities and sports are of low importance. Issues related to local politics are at the bottom of the list.

Figure 2: How would you rank local employment issues?

Source: Based on KÖFOP-2.12.-VEKOP-15-2016-00001 calculation by Kakai 2019.

The ranking order basically corresponds to a hierarchy of needs. Public services considered to be the most important by people are those demanded by the population on a daily basis, fundamentally affecting their everyday lives and routines. Their significance considerably outweighs that of public services related to education, culture and social life.

This is consistent with Abraham Maslow’s psychological theory of the hierarchy of needs (Roóz and Heidrich, 2013), according to which human needs follow a hierarchical structure. Physiological or basic needs, i.e. needs related to subsistence constitute the bottom level of the Maslowian “pyramid of needs”. At the second tier of the pyramid are safety needs: i.e. the preservation and safeguarding of acquired assets. These are followed by social needs stemming from out nature as social beings. Social needs refer to needs for love and belonging. The satisfaction of these needs relies on maintaining kinship and social ties corresponding to people’s interests and mentalities. The top of the pyramid comprises the need for self-actualisation. Certain individuals have a desire to make the most of their abilities and talents.

The fact that local political issues occupy the bottom tier of the list of priorities clearly indicates that in contemporary Hungary only a small segment of

citizens regard active engagement with public affairs as a vital and essential psychological need. A retreat from politics and public life is also detectable at the local level, although in most settlements this area no longer, or does not necessarily constitute the scene of party politics. In small settlements, the world of local governments is traditionally (or should have been) overtaken by independent politicians or civilians. However, national party politics overwhelmingly present in medium-sized and large settlements often penetrates this level as well. Hence, a disillusionment with national party politics (in the Anglo-Saxon terminology, the world of politics) also leads to a withdrawal from local politics.

The answers reveal an interesting contradiction relating to the assessment of the quality of services. According to the data, the classification of the quality of public services ranges between good and mediocre in almost all areas. Whether it is an accurate reflection of respondees' opinions or just an attempt to resolve a cognitive dissonance is hard to assess (Figure 3.).

Figure 3: How do you rate the quality of the following services in your area of residence?

Source: Based on KÖFOP-2.12.-VEKOP-15-2016-00001 calculation by Kakai 2019.

Are people really satisfied with general practitioner care or do they merely contend that it is of the highest attainable quality locally? While our research data does not corroborate this fact, it is quite telling that respondents rate the quality of secondary education as mediocre, an area that shows an above average service mobility.

Political processes and local services reflect the fact that only a third of the participants in our survey confirmed that they were familiar with the Act on local governments adopted in 2011. Those with no prior knowledge of it, on the other hand, were also aware that the law had curtailed the powers of local governments (Figure 4.).

Figure 4: Have you heard that new law on local government was passed in 2011? In your opinion, how has the the government’s role changed as a result of the new law?

Have you heard that a new law on local government was passed in 2011?

In your opinion, how has the role played by the local government changed as a result of the new law?

Source: Based on KÖFOP-2.12.-VEKOP-15-2016-00001 calculation by Kákai 2019.

The evaluation of the effects of the modification of the law points to an interesting ambiguity in the responses. When requested to assess the qualitative change of the delivery of local services within their respective settlements, respondees’ opinions suggested a non-variance in the respective services. This practically indicates that the modification of rules fundamentally transforming the delivery of local public services has not impacted the nature of services accessible for citizens or their perceived quality in the long term.

However, a shortage of information does not necessarily imply that on the basis of their everyday experiences and life situations citizens are unable to develop their own views and ideas on the limitations of the role of local governments and the state in public service delivery.

When asked about what role local governments play in public services or whether tasks can be fulfilled better by the state or local government, in most

cases, they opt for the latter (see Figure 5). According to most respondents, municipalities play an important role in the delivery of public services. They are more competent in fulfilling these tasks due to their awareness of local needs.

Figure 5: Local government or state?²⁵

Source: Based on KOPOP-2.12.-VEKOP-15-2016-00001 calculation by Kákai 2019.

Nevertheless, the respondents acknowledge that some tasks must be performed by the state and that responsibilities must be carefully distributed between the two agents (see Figure 6). Also, they have definite negative opinions about the over-extension of the state and the centralisation of municipal tasks.

In case we take the opinions worded in the questions as the statements of a Likert-scale and simply summarize them,²⁶ we will see that centralisation in

25 The question was: Many people think that services that affect people's lives should be provided by the state, while others do not think that the state should provide such services. Please indicate your opinion about this issue. Indicate your answers as you would do in school, with a 5 meaning you fully agree and a 1 meaning you fully disagree.

26 This analysis method treats the eleven statements as having equal importance, showing the primary atmosphere in connection with the examined topic. However, because of the high number of hesitant persons, it is worth investigating the finer opinion structures and interconnections hiding in the background. By means of a factor analysis, we have discovered two, clearly separated opinion dimensions behind the eleven attitude questions. The first one includes the statements examined from a quality and efficiency perspective whether it is the local government or the state that should provide local services. The second group includes the questions concerning task division from the financial and cost efficiency aspects. With the help of the two factors created this way, we were able to perform a cluster analysis and examine the patterns appearing along these opinion dimensions in Hungarian society, along with the type and size of the groups characterised by these patterns.

Figure 6: Local government or state?²⁷

Source: Based on KÖFOP-2.12.-VEKOP-15-2016-00001 calculation by Kákai 2019.

the field of public services (i.e. clear and strong state presence in every area) has a very small supporter base (Kákai, 2020: 81).

Regarding quality and efficiency aspects, those explicitly opting for decentralisation show a clear preference for local municipalities in terms of public service provision. These make up 39 percent of the people questioned (see Figure 7).

The method of analysis divided the originally very large group of hesitant persons into several parts. One of these groups was all for decentralisation in service provision but preferred the state in terms of the financial issues of public services. This constituted 25 percent of the questionees.

The other group was a pro-centralisation group that trusted the state more than any other entity in terms of the financial issues of public services and that, albeit not very strongly, also favoured the state in terms of quality and efficiency aspects. This type of thinking characterised 20 percent of those interviewed.

The answers of 16 percent were incomplete and thus impossible to categorise explicitly or did not match clearly the opinion structures of any of the groups.

One of the reasons for rejecting strong state contribution may be bad experiences. Since the act on local government was passed in 2011 and the state withdrew tasks from the local governments, both education and healthcare have

²⁷ The question was: „I am going to read you some statements about the changing role of local authorities in public services. Please tell us your opinion about each of these. Indicate your answers as you would in school, with a 1 meaning you fully disagree and a 5 meaning you fully agree.”

Figure 7: Municipality or state? – groups created by means of factor and cluster analysis²⁸

Source: Based on KÖFOP-2.12.-VEKOP-15-2016-00001 calculation by Kákai 2019.

been seen in a negative light (see Figure 8). 21 percent think that the circumstances have declined since the organisation of primary and secondary level education were taken over by the state and the majority thinks conditions have remained the same (which, with regard to the long-lasting negative judgement of education, is also problematic). Only 13 percent think there has been any improvement. The changes having taken place in the operation of hospitals have been judged even worse. Here, 40 percent think that conditions have definitely declined since 2011. Forty three percent think that there have been no changes, which is also problematic regarding the fact that healthcare had already long been judged as rather poor.

The only field where the balance of changes is somewhat positive is public administration. Here, 35 percent see improvements but the absolute majority of respondents (54 %) still see unchanged conditions in this field (see Figure 8).

The negative experiences from the past give a clear explanation of why people reject further extensions of the state withdrawing functions from local governments (see Figure 9).

When we asked people how the quality of the given service would change if local governments had no authority in public services, we were met overwhelmingly with negative opinions.

²⁸ The questions were based on a clustered analysis of the 12 statements in Figures 5 and 6.

Figure 8: Since 1 January, 2013, ...have been operated by the state. Have you experienced any changes in everyday life?

Since 1st January 2013, primary and secondary schools have been operated by the state. Have you experience any changes in the everyday life of the school?

■ circumstances have improved
■ there have been no changes
■ circumstances have declined
■ does not know, does not answer

Since 1st January 2013, the hospitals have been maintained by the state. Have you experience any changes in daily health care?

■ circumstances have improved
■ there have been no changes
■ circumstances have declined
■ does not know, does not answer

Since 1st January 2013, the spots of public administration have been re-organized. Have you experience any changes in everyday management of affairs?

■ circumstances have improved
■ there have been no changes
■ circumstances have declined
■ does not know, does not answer

Source: Based on KÖFOP-2.12.-VEKOP-15-2016-00001 calculation by Kákai 2019.

Figure 9: The transformation of the role of local governments is a popular topic these days. In your opinion, if local governments did not play any role in the fields listed below, would their quality be better, worse or the same as it is today?

Source: Based on KÖFOP-2.12.-VEKOP-15-2016-00001 calculation by Kákai 2019.

Those envisioning decline had absolute majority in each field. Only an insignificant portion thought improvement was possible.

Further centralisation is definitely seen in a bad light; the majority of the respondents thought that if the state took over the management of a certain field, the quality of related services would decline.

By means of factor analysis, we also tried to identify some latent structure in the attitudes concerning the twelve opinions in terms of this question.²⁹ The cluster analysis confirmed that those who are pessimistic about such changes (50 % of respondents) are equally pessimistic in all areas. Those who do not expect change (27 %) hold the same view in all areas. Those who expect an improvement (9 %) expect this in all areas.

The data indicates a disconnect in people's perception of a concrete locally delivered service and their representation of the given service in general. They are more satisfied with local conditions that are familiar to them, and more satisfied than with general conditions. There is an evident dichotomy: "our general practitioner is fine, but there has been a general decline in the quality of GP care", "our school has problems, but is basically alright, however, the state of primary education is deplorable".

Special legal order and/or toward deepening centralisation

The point of departure for the emergence of the coronavirus and its management by the government is the introduction of a "special legal order" adopted by Parliament on 11 March 2020, followed by several instances of the declaration of the "state of danger" during the three waves of the Covid-19 outbreak. The local organisational and financial implications of these provisions for local governments have impacted all regional and local authorities. These include a curtailment of the competences of the councils of representatives and their delegation to mayors, the lord mayor and the presidents of county assemblies.³⁰ In the meantime, mayors were given considerable room for maneuver in tackling the crisis situation (Balázs – Hoffman, 2020). In the absence of additional legislative support, mayors addressed the crisis in very different ways, for example, in case the mayor was lacking a stable majority, he used his power to circumvent the opposition (reduction of councillors' fees, unilateral modification of the rules of procedure, granting new titles, bonuses, authorising investments, etc.).

The shift to centralisation is clearly illustrated by the regulations curtailing the scope of action of local authorities and their involvement in epidemic

29 This, however, was not possible since all twelve aspects appeared in the analysis as belonging to the same dimension.

30 The most plausible explanation is that the Hungarian legal system modelled the state of danger on natural disasters, to which governmental bodies are unable to provide sufficiently rapid and prompt responses.

management. Notably, Government Decree No. 140/2020 (21. 4. 20) exempting taxpayers from the payment of tourism tax and Government Decree 92/2020 (6. 4. 20) transferring vehicle tax revenues collected by local authorities to the central budget.³¹ More importantly, Government Decree No. 135/2020 (IV.17) introduces a new legal instrument declaring any municipality that undertakes economic development and job-creating investments with a value of at least HUF 100 billion³² as a “priority economic zone”.³³

The difficulties of local governments were compounded by the loss of their investment-related business tax revenues and their transfer to county governments.³⁴ The measures clearly indicate the government’s attempt to downsize the financial resources of local governments. The first important step was the government’s proposal on “special economic areas”, which would divert the investments exceeding HUF 5 billion from settlement municipalities³⁵ to county governments (that are currently insignificant) so that everything, from imposing taxes to re-naming streets, would be taken over by the counties. As the next measure, the government has taken away vehicle tax incomes³⁶ from the municipalities and “channelled” them into the fund established to support pandemic defence. The measure, originally meant to be temporary was included in the budget of 2021 as well, the numbers of which indicate that the government confiscates this type of tax from local governments for good. In parallel to this, next year’s budget contains another important change, i.e. a quadruple increase of the municipal tax called “solidarity contribution”. Hence, the government seeks to improve the situation of the central budget after the coronavirus in 2021 by re-allocating appr. HUF 150 billion at the expense of the settlement municipalities.

To compensate them for the loss of their revenues, the government conducted negotiations with municipalities on a case-by-case basis, leading to uniform outcomes in that it proposed to subsidise the future investments of local governments but not their material expenses.³⁷

31 In both cases, revenues withdrawn from municipal budgets were registered in the accounts by central government as contributions to mitigation of the effects of the pandemic.

32 Around 300 million euros.

33 This has already been extended to the municipalities of Göd and Mosonmagyaróvár (both led by opposition coalitions). Pursuant to a recent amendment to a decree by the Constitutional Court (Decision No. 8/2021 (III. 2.)) the government is obliged to compensate the loss of municipal revenues.

34 This, however, does not represent a case of pure centralisation since it did not involve a re-centralisation of competences and property by the state but their transfer to territorial governments. However, the dominance of governmental parties with a majority in territorial governments is a major cause for concern (Balázs – Hoffman, 2020: 14).

35 Apart from the cities of county rights, the capital districts and the general assembly of the capital.

36 Earlier, the government and the local municipalities had a 60:40 percent share in this income.

37 An exception was the compensation at the end of 2020, the equivalent of HUF 24 billion (EUR 71.8 million), 92 percent of which (HUF 22 billion, EUR 65.8 million) was allocated to pro-government cities for free use. Opposition cities received only HUF 1.9 billion (€5.9 million) of compensation.

Research documenting the impacts of the coronavirus on local governments has been relatively scarce. The most representative of these is the survey conducted by the Institute for Regional Studies of the Centre for Economic and Regional Studies.³⁸

The main findings of the survey are:

- local governments attempted to resolve their tasks locally (“everyone was occupied with their own problems”), so there was no exchange of knowledge on higher levels;
- the short-term economic consequences of the crisis were prioritised and central government was expected to mitigate them;
- the role of digital administration was greatly enhanced and the integration of online platforms into everyday communication was realised;
- civil society and external organisations were rarely involved in the management of the epidemic crisis;
- the efficiency of regional cooperation was poor;
- researchers did not perceive the erosion of the relationship between local authorities and the central government;
- municipalities were poorly supplied with instructions by the central and territorial levels of government;
- municipalities attempted to provide local solutions to local problems, considering local specificities, in accordance with the regulations they received in written or online form (Finta et al. 2020: 196–197).

The survey highlighted the anomalies of the crisis management undertaken by the central government. It also shed light on the current situation of local governments and local governance, emphasising the resilience³⁹ of the legal system, and more specifically, the system of local governments.

In overall, the management of the crisis situation appears to have further reinforced the role of central government, whilst undermining the aspects of organisational learning and the quest for long-term solutions.

Conclusion

It is difficult to give a proper answer to the question of what the optimal ratio of centralisation and decentralisation would be (Pálné, 2008) since the state provides some control over the economy, intervenes in the economy to some extent, provides free services and implements some redistribution in each field

38 In the course of April-May 2020 (following the termination of the first wave), around 20 researchers from the institute elaborated the concept and launched the research whose empirical backbone was a telephone survey covering a wide range of topics conducted among 44 municipalities and drawing on the results of previous researches on local governments.

39 The term “resilience” implies the flexibility/capacity to bounce back, i.e. successful adaptation to powerful, recurrent or shock-like external impacts.

(Kornai, 2017: 71). Therefore, disagreements and conflicts evolve at each of the 'contact points' of the various sub-systems within the state.

Centralisation tendency was a tried and tested practice of managing the economic crisis of 2008 across Europe.⁴⁰ In several countries, considerable restrictions and the reorganisation of competences took place. In this respect, Hungary does not differ from other European countries. Thus, concerning the issue of centralisation vs. decentralisation, no clear standpoint can be taken. The successfulness of one or another governmental structure depends on several factors, ranging from the economic, social, political and cultural context of a given country to the interpretation of the two governmental structures in that country (Litvack et al., 1998). However, it is worth noting that the deep and very rapid transformation of the municipal system was not only a manifestation of the constraints imposed by the economic crisis in Hungary, but a process carefully prepared by the government in line with international regulations.

According to the surveys, citizens do not think that the state can manage the tasks and services withdrawn from the local level any better than municipalities. The centralised organisation of the delivery of public service tasks is not necessarily inefficient or less efficient. In the meantime, it is far from evident that the transformation of the local government system has improved the quality of service delivery. However, regarding the centralisation shift within the local government system and its underlying method, the prevalence of community consumer interests appears to have deteriorated instead of its anticipated improvement.

So far, we have been unable to justify the presumption that the centralisation of the financing and management of a wide range of public services has resulted in more effective and higher quality services (Kákai and Vető, 2019). Our results do not verify the hypothesis according to which transformation brings about a higher standard of services or higher level of satisfaction (on the contrary, the data indicate a general decline). At the same time, we cannot conclude that the centralizer itself can be declared "impetuous" or, in terms of its objectives, "irrational" or "mistaken" (Bordás et al. 2020: 93). We can only state that during centralisation, the prevalence of community consumer aspects was not at all strengthened, instead, the tendency was stagnation or explicit decline.

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40 This implies that in over half of the OECD countries, the decline in local revenues exceeded the decline in central government revenues for over at least one year between 2008 and 2010 (this phenomenon is visible in Romania, Serbia, Bulgaria, but also in some large European countries (France, Spain, Poland). Only a few countries have witnessed a strengthening of the local level with supplementary resources (Czech Republic, Slovenia). As indicated by OECD data, local governments have not benefited from revenue sharing in any of the countries after 2008 (Halmosi, 2013: 297–298, and OECD, 2012).

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