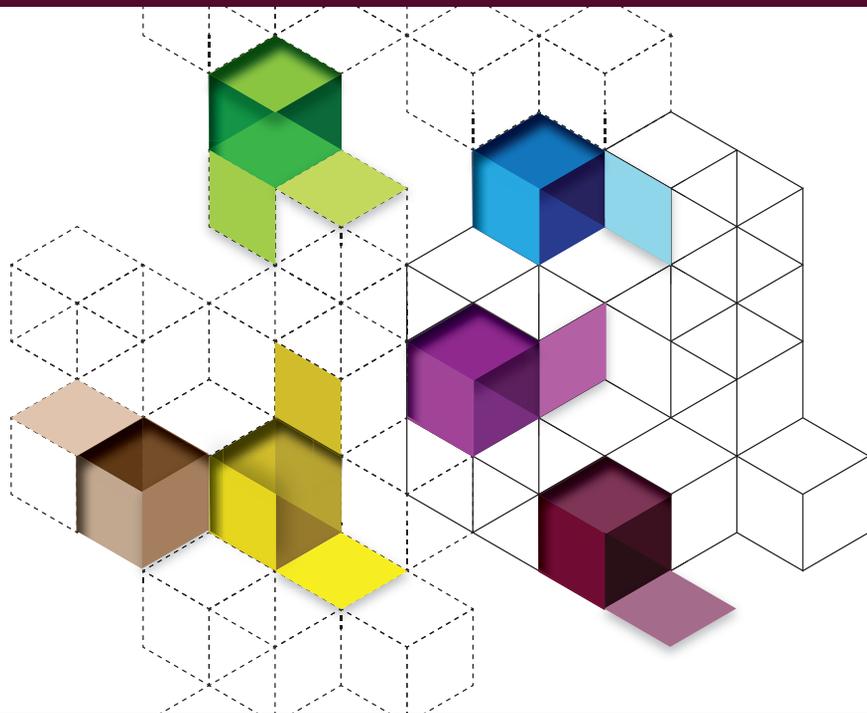


# Measurability of Good State and Governance II



Edited by TAMÁS KAISER

dialóg Campus

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Edited by Tamás Kaiser



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## Foreword

The developments of recent years, the financial and economic crisis, the effects of climate change and the measures taken against terrorism and illegal immigration have reinforced the paradigm according to which the state must take on a role of creating and protecting value in the process of political, economic and social changes in order to enforce the abstract system of ethical norms that serve the interests of the common good. The state is in a unique position to institutionalise various regulations and norms within its own territory, as well as, through its centrally controlled bodies, to provide coordination of all areas of society, to supply public goods and services, and to enforce responsibility and accountability.

At the centre of the current debate about the role of the state are unanswered questions that have long been on the agenda: where should the state's role be strong and where should it be more moderate, what role the market (private) sector should play in performing public functions and providing public services, what tools can the state use to promote economic growth, and how to create a balance between efficient operation, the rule of law and accountability. All of this has made it necessary to rethink the extremely heterogeneous concept of "good government", in the course of which the state-centric approach and practice of governance has both strengthened quite palpably and emerged into the foreground. This does not entail detachment from society; on the contrary, the state's autonomy promotes socio-economic development on the basis of its broad involvement in society and dialogue with society's various actors and organised interest groups, as well as the authority arising from such.

This paradigm shift is expressed by the proliferation of research studies dealing with the complex measurability of governance-capacities and capabilities, which use as their starting point the ever-increasing responsibility of the state and government, as well as the practice of an integrated approach necessary for performing increasingly multi-layered, often overlapping tasks requiring increasingly significant capacities and institutional and administrative capabilities, the creation, "maintenance" and continuous development of which can be regarded as integral to the exercise of day-to-day governance.

In the interest of assuring efficient operation and sustainable results, as well as of state reform capable of self-reflection, the State Reform Centre functioning within the organisational framework of the National University of Public Service (NUPS) started in 2015, to release the annual so-called *Good State and Governance Report* (hereinafter: "reports"), the aim of which is the development and continuous operation of an autonomous evaluation system relying on its own database. Based on their methodologically and statistically grounded measurements and analyses across six impact areas – security and trust in government, public well-being, financial stability and economic competitiveness, sustainability, democracy and effective public administration – the reports provide both a kind of cross-section and feedback about changes in governmental capabilities during the specified time interval. The reports are structured in a 6×5×5 matrix: five dimensions for

each of the six impact areas, and five indicators (one key indicator and four sub-indicators) for each dimension.

The intention and set of objectives of deepening and expanding the reports is demonstrated by attaching to the 2016 *Good State and Governance Report*, on the one hand, the *Good State and Governance Opinion Survey*, a representative survey, based on a large sample, of public perception of governmental capacities, and on the other hand, by so-called “special reports”, subjecting the impact areas in the report, or certain dimensions, to separate measurement and analysis.

The antecedent to this volume is the collection of essays titled *Measurability of Good State and Governance II* that formed the basis of the first edition of the *Good State and Governance Report 2015*, published in 2014, and with which the community of expert researchers in the Good State and Governance Working Group (GSRW) attempted to launch a series allowing, for the sake of developing the scholarly background and methodology supporting the forthcoming editions of the *Good State and Governance Report*, for the clarification, debate and justification of the criteria and dilemmas involved in the selection of indicators. While the reports do not include all of the indicators identified by the working groups responsible for each impact area, we consider it to be a matter of importance to give a detailed presentation of the criteria and dilemmas involved in their selection, which also may eventually serve as the starting point for further research and assessments.

In accordance with this, the purpose of *Measurability of Good State and Governance II* is simply to provide a basis for the 2016 *Good State and Governance Report* by revealing to the academic and professional audience those investigative questions and dilemmas that were formulated during the course of the research, along with how they were answered, as well as to provide a forum for discussing the methodological challenges and their factors (frequently limitations and constraints) that determined how the report developed into its ultimate form. Another purpose of this volume is to reflect the opinions and criticisms generated in relation to *Good State and Governance Report 2015*, and to discuss the results and problems, to introduce new substantive and methodological directions for development, with special regard to the international dimension, as well as to channelling the results of opinion surveys.

The *Introductory essay by Tamás Kaiser and Gábor Bozsó*, after presenting the theoretical and conceptual frameworks and most important principals of state-centric governance, argues that the change in attitude indicating a “rediscovery” of the state and governance is clearly visible in the revival in interest in research related to the complex measurability of governmental capacities and capabilities. What has not yet emerged, however, is the crystallisation of a coherent concept in both the theoretical and empirical sense, which underscores the need for collecting, developing and applying national performance measurements and indicators reacting to country-specific problems and contexts that are based on the latest data.

The study on the *Security and Trust in Government* impact area endeavours, in light of the findings from Hungarian and international measurements, to place the interpretative frameworks and measurement parameters pertaining to the various dimensions of the impact area into a comprehensive context, with special regard to the facts that measurements of security-related governmental capabilities, including those from international organisations, are conducted only in specific areas and that trust indicators are typically only measured with respect to specific public institutions and societal sub-systems.

The essay on the *Public Well-being* impact area is primarily guided by the outlook that the evaluation of public well-being, hitherto predominantly economic in character, should move toward a broader examination of quality of life. This objective is advanced by presenting and discussing those evolving substantive and methodological directions that provide technical and methodological insights into, for example, describing the income situation of the middle class, revising the calculation of the subsistence level, internal migration of the population, as well as, with respect to subjective preferences, putting happiness indexes and research into values and ethics into practice.

The essay on the *Financial Stability and Economic Competitiveness* impact area essentially seeks the answer to the question of what factors and influences can be grasped in the role of the good state in economic development, economic innovation and improving competitiveness. In order to do so, it concentrates extensively on state innovativeness and the state's role in influencing innovation, as well as on mapping governmental capacities in helping the business environment become more friendly to entrepreneurship. It formulates recommendations and new directions for research for measuring and analysing such aspects as regional disparities, along with topics that are important despite being statistically difficult to examine, and for specifying the criteria and methodologies for making international comparisons.

The *Sustainability* impact area poses a serious challenge, since this area of scholarship has as of yet produced no uniform practise for measuring environmental, economic and social dimensions, nor for examining their impact on each other. For this reason, the study set as its goal in this, still describable as nascent, phase of the research the identification of indicators that can be used to measure governmental capabilities and formative factors that are appropriate first and foremost for domestic conditions, but which are also suitable for international comparisons, with special regard to what image and values they exhibit in terms of Hungary's adaptation and mitigation with respect to the challenges presented by climate change and the areas of energy and water management.

The *Democracy* impact area takes into account the requirement for simultaneous reflection on constancy, continuity and period-specific updating, or in other ways, the need to keep the possibility of continuous progress and development in mind. Due to the cyclical nature of elections, there can come periods of time when, taking into account traditional elections and viewpoints, it is more difficult to make proposals for new findings. It is for this reason that the study examines in detail the opportunities for including new and novel indicators, with special regard to by-elections, the measurability of the politicisation of public life and the applicability and effects as an indicator of the post-facto control of norms initiated by the courts.

Now with survey findings at its disposal, the study on the *Effective Public Administration* impact area addresses methodological challenges, constraints and theoretical frameworks, and in this context rethinks the conceptual frameworks, that is, it examines what is meant by the "goodness" of public administration. This is made indisputably more difficult by the fact that there are no overarching standards for measuring a complex public administration system, and also because there is no point in subjecting public administration to a so-called model-dependent evaluation. The study therefore describes and analyses in detail the specific context of the measurement results, addressing in particular the possibilities and constraints involved in making international comparisons and in investigating social perceptions.



# The chief aspects of the concept and measurability of state-centric governance

*Tamás Kaiser<sup>1</sup> – Gábor Bozsó<sup>2</sup>*

## 1. Introduction

The evolution and development of the concept of governance is closely linked to the view on the role and tasks of the state and the goals and means assigned to it, which has generated many debates and alternate proposals over the past three decades. The core problem can best be grasped in the fact that while ever more powerful expectations are formulated for the state with respect to exponentially growing challenges appearing in increasingly complex forms, in the system of conditions of simultaneously emerging globalisation and localisation, the extent to which the required resources and capacities are available is constantly decreasing. In order to resolve this paradoxical situation, it has become critical to introduce such innovative forms of organisation, governing and providing public services that are capable of mobilising resources originating from the non-governmental sphere in a manner that is supplementary to traditional governmental means, and which comply with, in addition to the efficiency criteria, the system of norms for legitimacy and accountability. Although the simultaneous meeting of the two objectives – efficiency and democracy – is sustainable, it necessitates the development of state capacities and governmental capabilities that are capable of adaptation and renewal.

The numerous concepts of state organisation and governance and their institutional and public policy models have developed on the basis of viewpoints that consider the role of the state to be retreating, strengthening or just transforming (Bache, 2008; Piattoni, 2009; Börzel, 2010). It is a recurring question as to how far the state's responsibility should extend, what means it should employ, where the state's role should be stronger or less so, and how the concept of the public good should be interpreted in the services market.

The investigation and assessment of the causes precipitating the financial and economic crisis of 2008, as well as the observations from handling the crisis, gradually pushed the neo-liberal concept of a “cheap and small state focused on positioning” into the background. In contrast to the trends of the “hollowing out of the state”, there appeared the holistic concept of the “good state”, according to which, in order to implement the abstract system

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of norms of the public good, the state must take on a value-creation and value-protection role in the process of political, economic and social changes. It has been demonstrated that having the state assume a role is crucial in numerous traditional areas, such as in education, social policy, innovation and strategic industries (Mazzucato, 2011; Musacchio–Lazzarini, 2014; Mazzucato, 2015). In addition to these, however, new problematic areas are also continuously appearing, including migration, terrorism and climate change, whose common characteristic arises from their natures as difficult-to-grasp “wicked issues” whose solutions require strategic thinking, and a horizontal and integrated approach spanning sectors and public policies.

The concept of the “good state” necessitates a rethinking of the rather heterogeneous concept of “good governance”. A good basis for this is provided by previous research advocating the “taking back of the state”, on which basis the *state-centric* approach and practice of our own time became quite apparent (Mann, 1984; Evans et al., 1985; Bell–Hindmoor, 2009; Matthews, 2012; Plattner, 2013). This implies neither etatism nor separation from society, but quite the contrary: an autonomous state, widely embedded across society, with dialogue conducted with the society’s various actors and organised interest groups and based on and in possession of the authorisation so gained serves the aim of economic and social development.

This study argues that the change in attitude regarding the ‘rediscovery’ of the state and governance is clearly shown by the revival of research related to the complex measurement of governmental capacities and capabilities. Practising an integrated approach in order to perform the increasing multi-layered and frequently overlapping tasks requires increasingly significant capacities and capabilities whose development and continuous improvement can be regarded as an integral part of day-to-day governmental practice (Fukuyama, 2013; Gajduschek, 2014).

The significance of the problem is also shown by the fact that in addition to numerous international organisations (OECD, World Bank, World Economic Forum and IMD) and public policy institutes (Quality of Government, Bertelsmann), more and more governmental institutions are engaging in the complex evaluation of governmental performance, developing the systems of indicators required for such, and preparing and publishing rankings and reports (Oman–Arndt, 2010; Bersch–Botero, 2014; Gisselquist, 2014; OECD, 2015c). It is our assumption that all of this can substantively contribute to the improvement of governance when the methodology of the performance measurement is country-specific, but at the same time suitable for international comparison, and also when through regular feedback and assessment, a coherent system takes shape among between the current interpretative framework of governance and the relevant aspects and indicators of its measurability.

On the basis of the above, the study is divided into four main parts. After developing the theoretical frameworks, we introduce the state-centric approach as well as the most important related trends (whole-of-government governance, metagovernance). This is followed by a description of the conceptual frameworks of state capacity and trends in the approaches underpinning measurability, as well as an overview of country-specific performance evaluations and national indicators. Finally, we formulate several conclusions on points and perspectives related to the state-centric approach to governance and national performance evaluations that focus on governmental capacities and capabilities.

## 2. Theoretical frameworks: from good governance to state-centric governance

The conceptual and substantive elements of the schools of thought about the state and governance, as well as changes therein, have undergone a long and often winding route over recent decades. The evolution of the so-called “paradigm of governance” (which hereinafter we will refer to simply as “governance”) posed a direct challenge to the traditional theoretical and interpretive frameworks of the state and governance. Its emergence is primarily attributable to the fact that in the context of globalisation, with increasing expectations on the part of citizens coupled with contemporary states’ decreasing ability to provide classical (exercising the powers of the state, economic development and social policy) functions, decreasing in tandem with this is its ability to intervene in solutions, requiring an integrated approach, to problems that are often transnational and horizontal in character.

In order to resolve the tensions, the practice that has developed in Western democracies since the end of the 1980s is an inclusive partner-oriented governance strategy that draws in supplementary resources originating from the NGO and business sectors, which the professional literature, based on the governance paradigm, commonly terms “good governance”<sup>3</sup>. All of this has unavoidably entailed an erosion of the traditional functions of the state, in part in an “upwards” direction toward the supranational and global sphere, in part “downwards”, through various forms decentralisation and de-concentration, and finally, “outwards”, with the outsourcing and out-contracting of public functions. The “interventionist”, expansive state has increasingly taken on the characteristics of the “regulating” and activating “developer” or simply the “opportunity creating” state, with state service provision functions carrying at least as much weight as administrative control.

As a consequence of these, the essential element of the governance paradigm is the internal functional differentiation of the system of state institutions, as well as the interdependence with international actors. In this model, although the state, or rather, the government representing the state, determines the overall long-term political objectives, the execution is carried out jointly with the key actors of the government’s external environment. The role of governments lies in developing strategy, or the “steering” or “hub” function, rather than the operational-type roles of “rowing” or “spokes” (Osborne, 2010; Christensen–Lægreid, 2011). The application of solutions and managerial methods borrowed from the business sectors, together with the increased emphasis on ministerial background institutions (agencies) and public policy networks and also, in the general inclusion of non-state actors, the concept of “hollowing out of the state” – or to use

<sup>3</sup> The new paradigm of governance aimed at renewing the structures and methods of traditional governance, originally developing out of the practice of social partnership and the horizontal cooperation between the state and the public sector. What has remained, however, is the key role of governance, which integrates into a looser partnerships structure of the governance function. Due to constraints of length, we are omitting a list of the representatives of the extraordinarily rich literature of governance, with numerous trends and schools of thoughts, and within that, of the representatives of “good governance”.

a different expression “governing without government”, have, however, on this basis, led to the development of new forms of governance.<sup>4</sup>

Closely linked to the interpretative and conceptual frameworks of governance and the “hollowing out of the state” are “modernisation” reforms widespread across the area of public administration and provision of public services and developed under the rubric of New Public Management (NPM). Their introduction is built on the presumption that by introducing the various elements of decentralisation, organisational autonomy and the performance evaluation implemented in the competitive sector, the effectiveness with which public services are provided becomes measurable and quantifiable through the preferences and level of satisfaction of the consumers (Verebélyi, 2004; Torma 2010).

From this – at least from the point of view of democracy theory – it also follows that the government is not responsible to the aggregate of the voters, but rather to the “stakeholders” in the given public policy. A serious dilemma of the governance paradigm is how high-level productivity, efficiency and competitiveness can be achieved while maintaining the core values of participatory democracy. The outsourcing of services and the proliferation of background institutions mean in practice that elected leaders have less and less influence over the functioning of public policies, blurring the lines of accountability with respect to governance in practice.

Based on all this, it is justified to ask whether the “hollowing out of the state” and the “new governance” built on the basis of the governance paradigm and NPM really do completely push the “old” methods into the background, altering the nature of the meaning and function of the state and the government. Does the government (which in this instance implies the frameworks of hierarchy and governance built on command and control) in fact lose its exclusive role, and transfer it to decentralised governance of social self-regulations model based on the networked cooperation of the public, market and NGO sectors? A framework adequate for surveying the problem is provided by Jon Pierre’s frequently quote classification, which contrasts state-centric (old) governance against the society-centric (new) governance outlined above (Pierre, 2000).

Nevertheless, in contrast to the approaches linked to society-centric governance, grave doubts have been formulated – especially through the empirical research related to privatisation and deregulation – in relation to the previously envisioned decline of the state and its “hollowing out” in general. The crises that have ensued regularly since the 1990s, each threatening security and economic stability, have reinforced and underscored the importance of the state’s continued existence and active involvement. In truth, the operation of the state has changed in order for it to adapt to the increasingly multifaceted and quickly changing environment, and thus the weight of traditional governance has remained unchanged in new types of governmental forms. While in many respects, the state has become overburdened as it fulfils ever multiplying social needs, the involvement of the new resources (originating from the business and NGO sectors) does not imply that the balance of power is shifting from the constitutional institutions of the government to non-governmental

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<sup>4</sup> The concept of the “hollowing out of the state” was introduced to the British public sector by Rod Rhodes in his analysis of the impacts of the changes between 1980 and 1990 (Rhodes 1994). In the professional literature, the concept is often related to network governance or NPM, and sometimes the two terms are used – albeit incorrectly – as synonyms for each other.

actors or structure, and even less so that government is losing its previously definitive role, becoming simply an ordinary actor among the other social and international participants. It is much more a case of governance, as a concept, describing the method of governmental coordination adapted to the given public policy context, of which, although some of them have in fact changed significantly in recent times, the role of the government remains consistently determinative in any newly developing institutional configuration, regardless of the ratio to which principals of business and networking are expressed in that hierarchy. Government, therefore, does not conflict with governance, and especially does not exist outside of it, but to the contrary has an unquestionable role as an independent variable in defining the structure and process of governance. It is precisely for this reason that the government-governance dichotomy is conceptually misleading, and not sound in practice, either (Capano et al., 2015: 316).

As a concept, however, governance remains a legitimate concept if we dismiss the ideological environment of its evolution and its preferences for positioning non-governmental actors. If we accept that governmental institutions have retained a definitive role in the decentralised system of coordinating public policy, then it is also obvious that the role of governments' strategy has also strengthened, although in an altered environment and with the application of various public policy strategies. The essence of the state-centric outlook is that the contemporary state possesses significantly more "hard" resources (control, regulation, outsourcing) and "soft" resources (persuasion, mediation, agenda-setting) than it did at any time in the past. The mix of old and new tools increase the opportunities and room for manoeuvre for implementing strategies and other options available for the policy. The public policies are unchanging, but their interpretations, aims and the manner in which their execution is coordinated have changed, and this entails a change in the institutional arrangements and methods applicable in the given area. In other words: the governments continue to consistently take primary responsibility for steering the society and for developing and operating the institutional forms of coordination, but they can also choose the manners in which to meet their obligations, or can alter the existing tools and statutes. The governments' influence can be direct (steering, strategic, planning or coordinating) or indirect (regulatory), but they always play a determinative role in every form of governance, just as much in the hierarchical one as in the market and network ones. All of this necessitates a detailed explanation of the conceptual frameworks of and trends in state-centric governance.

### **3. The state-centric approach and its trends**

The state-centric approach to governance can be considered to be an alternative to the society-centric approach (Stumpf, 2014: 25; Capano et al., 2015: 313). It rejects the "hollowing out" of the state and the weakening of state capacities and government capabilities. In contrast to this, it deems it fundamental for the implementation of state tasks to remain of key importance in government strategies, and this is also indicated by the fact that the extent and size of governance show continuously increasing values. States strive to strengthen their capacities, on the one hand by repositioning the role of state institutions, particularly that of the centre of government, and on the other hand by initiating the building of partnership relationships and networks with the society's actors (Bell-Hindmoor, 2009: 2).

The state-centric approach, however, is still not yet a unified concept, but is much more of an “umbrella concept”, which is able to gain an interpretative and conceptual framework primarily through the debates, holistic in nature, of the post-NPM period sinking a new place and role for the state, governance and public administration. What can currently be considered its most important trends are those of whole-of-government (WoG) governance and meta-governance, whose common feature is that through strengthening the executable capacities and capabilities of the centre of government based on political governance, they aim to increase the state’s role and rationalise the agencies and background institutions that proliferated during the NPM period, as well as to strengthen the horizontal coordination between governmental organs. This counter-reaction emerging to counter the problematic elements of NPM is reflected in the development of increased central control and coordination directed from above.

### **3.1. The common characteristic of the post-NPM reforms: the strengthening of the centre of government**

The reforms of the post-NPM era attempted to give answers to three questions.<sup>5</sup> First, it was necessary to resolve those problems that stemmed from the weakening of central capacities and controlling mechanisms. Playing a key role in this is the construction, on the basis of the strengthening of the head of government’s background apparatus, of a strong Centre of Government that is capable, on the basis of an easily graspable philosophy of governance accepted by all governmental actors and a common set of objectives and vision for the future, of managing the various branches and decision-making levels, as well as cooperation between governmental and non-governmental actors (Dommet–Flinders, 2015; OECD, 2015d). The management function suggests that, instead of using the tools of direct intervention and control, the centre of government must manage the cultural differences and diverging interests and role perceptions inevitably arising in the course of horizontal collaboration, ensure the informational, financial, professional and administrative resources arising from the necessity for strong coordination, and strive for balance between the hierarchical-type functioning and the conciliation mechanisms based on horizontal negotiations and bargaining processes. This balance naturally varies by country and by public policy area, and also depends on the internal and external conditions prevailing at the given time (OECD, 2015a, 2015b).

Strengthened centralisation, however, does not entail downgrading or eliminating decentralisation or functional differentiation, since the emphasis is placed on political and public administrative coordination and the organisation of work projects spanning sectors. It was for this purpose that the number and independence of the background institutions that had proliferated during the NPM period started to be reduced, which is expected to result

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<sup>5</sup> Studies analysing experiences with NPM with a critical end after the turn of the millennium increasingly frequently took the position that the era was over and at the same time urging post-NPM reforms to “take back” the state and governance. Based on these, the post-NPM reforms can be regarded primarily as an answer to the overgrown organisational thicket that had proliferated in the practice of NPM and the institutional fragmentation that had resulted from this.

in increased accountability, the rationalisation of areas of competence and resources and more efficient operation (“de-agencification”) (Dommet–Flinders, 2015; Dommet et al., 2016). The most important tools for implementation are closure, contraction, conglomeration, ministerial integration or transferring the area of competence to a different state body.<sup>6</sup>

The third task was for them to ensure the necessity of coordination, and in particular the necessity of horizontal coordination, often on a transnational scale. (Fejes, 2012: 24; Læg Reid–Rykkja, 2014: 2). The objective and outlook of the post-NPM reforms can be precisely understood as the public administration hierarchy attempting to apply “softer” means in order to renew its command and control based system and the “organisational tunnel vision” (siloization) that developed in NPM practice, as well as attempting to introduce variable forms of networked partnership-based cooperation. The implementation of such requires strong horizontal coordination, but at the same time – owing to the need for organisation, operation and supervision of the horizontal coordination, and for accountability for it – the strengthening of the centre of government is critical.

The increased attention on coordination is due, on the one hand, to the trends and reforms that have evolved over the course of the past decades and, on the other hand, to the needs and constraints of solutions called for by increasing complex and difficult-to-manage public administration problems (Læg Reid–Rykkja, 2014: 2). Governments are finding themselves confronted by increasing numbers of difficult-to-define and fluid “wicked issues” that behave as moving targets and share, with the common feature being the fact their substance and management demand capacities that cross organisational boundaries, public administrative levels and ministerial portfolios.<sup>7</sup> The needs for enhanced coordination have also been fuelled by the fact that establishing the single purpose organisations introduced under NPM and based on autonomous institutional functioning and distance from political governance precipitated such a degree of fragmentation that could not be counterbalanced by coordination among the organisations.<sup>8</sup> This kind of “pillarisation” severely hampered

<sup>6</sup> One of the most important elements of the public administration reforms (Public Bodies Act of 2011) implemented in the United Kingdom by the Cameron government between 2010 and 2013 was the transformation of so-called Quango-type organisations and the drastic slashing of their number. For example, the head count at the ministry dealing with environmental protection and rural development was 2457 in May 2010, but a total of 12,000 people worked at the ministry’s background institutions. As a result of the British reforms, by the end of 2013, the number of organisation units had decreased from 306 to 286, meaning planned rationalisation of 94% was achieved (Dommet et al., 2016: 8). In Ireland between 2011 and 2014, reforms affected more than 90% of public administrative bodies. A good example is the merging of three agencies into the housing policy agency and the creation of local business offices by merging 35 previously independent agencies. In Spain in 2006, a law was passed regarding the institutionalisation of state agencies, but the rationalisation of the functioning of the public sector was already underway by 2011. A law adopted in September of 2014, prescribed further definite measures in the interest of rationalising and restructuring the public sector.

<sup>7</sup> The first to point out the public policy problems associated with high risk in a complex and uncertain environment were H.W.J. Rittel and M.M. Webber in their study published in 1973. In their opinion, there exist certain social problems that cannot be solved by a traditional, analytical approach. These they termed “wicked problems”, as opposed to clearly identifiable and safely resolvable “tame” problems (Rittel-Webber, 1973). Examples of such problems are social cohesion, unemployment, poverty, an ageing society, education, climate change and immigration.

<sup>8</sup> The fragmentation became especially striking in the United Kingdom and New Zealand. For a Hungarian-language discussion of the concept of agency-type state administrative bodies and how they function in Hungary, see Hajnal (2011).

the handling of those problems and challenges that, by nature, extend beyond the impact areas and competences of the individual organisations. It is therefore no surprise that the post-NPM reforms – that took place in the late 1990s in those countries (Australia and New Zealand) which had been trailblazers in the introduction of NPM) – place special emphasis on the vertical and horizontal coordination between organisations, as well as on strengthening administrative control (Christensen–Lægheid, 2011: 414).

All things considered, the functioning of NPM, generally speaking, was not conducive to solving complex problems requiring coordinated action. This must be stressed because – in light of the fact that the systems of public administration and of delivering public services varies from one country to another – one really cannot speak of a uniform application of the basic categories of NPM, since the objectives and the results exhibit significant differences.<sup>9</sup>

In contrast, the change in attitude of the post-NPM era has led to institutional reforms, organisational restructurings and performance measurements that – adapting to the public administrative traditions of the individual countries – create the opportunity to develop uniform modes of governance that, while coordinated by the centre of government, still function flexibly in their individual elements. The governments of Great Britain, Australia and New Zealand have created new organisational units (cabinet committees, interagency cooperation groups, intergovernmental expert committees, working groups, multi-sectoral programmes) in order to strengthen cooperation between decision-making actors. Needed for this, naturally, are a new outlook and manner of organisational functioning based on cooperation that, through a commitment to common values and a culture of inclusion and trust, can become part of everyday practice.

### 3.2. Whole-of-government governance

The common feature of post-NPM reforms is the fact that their implementation takes place as part of a holistic strategy that the professional literature most frequently terms joint-up-government (JUG) or whole-of-government (WoG).<sup>10</sup> WoG can best be regarded as an umbrella concept that through the strengthening of the centre of government, as well as of external-internal coordination, integration and capacity-building, attempts to give an answer to the problems caused by the fragmentation that has developed in the public sector. It can be applied in various areas, meaning at the organisational level (between ministry and

<sup>9</sup> As a noteworthy example, NPM was hardly felt at all in German public administration, while it was considered an instrument of the “minimal” state in the United Kingdom and an aiding factor in the functioning of the state in Denmark. Similar diversity applies in the practical application of NPM: In England, the background institutions received an important role, while Australia, with its similar public administrative culture, never introduced it (Bevir–Rhodes, 2003: 8).

<sup>10</sup> The two terms essentially refer to the same phenomenon. The term joined-up-government became commonly used in the United Kingdom, and whole-of-government in Australia. The interpretive framework for JUG, however, is narrower, encompassing the integration of public policy, while WoG expresses the coordination and execution of government actions from a strategic outlook. Therefore, the concept of WoG will be the one used henceforth in this study. It is worth noting that in Canada the names also extended to the Canadian “horizontal management/government) and New Zealand’s “integrated government”. The diverse terminology, frequent inconsistencies in definitions which frequently overlap with each other reflect the immaturity of the concept.

background institutions, exclusively between background institutions, as well as between central and local or regional actors), for solving the problems of clearly identifiable social groups (pensioners, immigrants) according to individual public policies (transportation, education, youth affairs), by geographical areas (community, county), or by means of integrated service provision (one-window administration, e-government portal). WoG can be applied in dealing with strategically important (related to defence and national security or transnational/global in character) matters, as well as when managing special policy and communications in crises (climate change, migration, terrorism) arising from “wicked issues” (Colgan et al., 2011).<sup>11</sup>

The first reforms evolved in the 1990s in Australia, Canada, New Zealand and the United Kingdom, and their most important objective was to develop integrated service provision. Following this, WoG became part of the restructurings of public administration in Finland and the Netherlands, while specific programmes were established in Ireland and Northern Ireland after 2010 in order to organise horizontal cooperation between the sectors.<sup>12</sup> The experiences from the reforms show that their effectiveness is high particularly in the case of preventive-type measures (for example, in health care or anti-poverty initiatives), but at the same time, they are not certain to constitute the best solution in managing acute, already developed problems.

WoG is obviously no panacea and, in the event of sustained application, “cooperation fatigue” sometimes inevitably emerges among the stakeholders. There is wide-ranging consensus that an ever increasing share of the challenges of our time can be resolved by shared, integrated governmental action. The big question, however, is whether we can be sure that WoG also works in practice. Taking into account the different historical, cultural and legal attributes and their differences in their political and public administrative cultures, any standardised one-size-fits-all applications can be excluded in advance. The implementation of WoG can increase costs and slow down processes, without it being certain that it is the best solution for handling a certain problem in a given situation.

The bottleneck lies primarily in whether it is possible to link structural changes and a restructuring of the institutional system with the creation of an internal organisational culture with a new ethos and built on cooperation, trust and teamwork. Required for this, however, are structural and cultural changes on a major scale, and this implies that in the short term, the trend of WoG cannot be expected to become the accepted practice of European governance.

### 3.3. Meta-governance

The concept of meta-governance has regularly appeared in debates about the substantive and conceptual frameworks of the state, the government and governance since the start of the new millennium (Peters, 2008; Jessop, 2011; Dommet–Flinders, 2015). Essentially, what

<sup>11</sup> WoG can also be implemented in phases that deviate from the public policy cycle, in planning just as in the course of execution, for example, while implementing service provision.

<sup>12</sup> With no claim to comprehensiveness, noteworthy governmental initiatives include Positive for Youth (2011) in the United Kingdom, Public Value Management (2006) in Scotland, the Government Programme (2003) in Finland, and, thus far, the Public Service Reform Plan (2014–2016) in Ireland.

meta-governance does is attempt to describe and understand the nature of the role, influence, capacities and extents of the state within the medium of networks and decentralised structures, while also offering a solution to the fundamental problems of network governance.<sup>13</sup> Within this, it seeks an answer to the question of how and to what extent the institutions of politics are capable of governing and directing, by means of various regulations, bodies of knowledge, institutional tactics and other political strategies, the groups of “self-organising governance”, or in other words, the networks of public policy.

In order to understand the approach of meta-governance, it is important to differentiate it from the paradigm of governance. While the later primarily concentrates on the process that removes political institutions from governance and the state, the former explicitly monitors those processes that, in their form of command and control, ensure the influence of the government, but doing so in alignment with the functioning of partnership and network-based governance. The state and the governance, there, in possession of public power, have the opportunity to, on the one hand, encourage the development of self-organising networks, and on the other, to put them under their control to a certain extent, without returning to the traditional forms of governance based exclusively on command and control (Torfing et al., 2012). In the system of conditions created by meta-governance, control over the public sector can be strengthened without returning to the traditional system and practise of command and control. The aim is for the appropriate balance to develop between the control (re-centralisation) and the autonomy of the organisations and networks. Here, the state is no longer the sole actor among many, but rather one that, as a kind of “meta-government”, can exercise influence over decision-making.<sup>14</sup> In order to implement this, the state – as the central actor in public policy processes – has a wide range of tools, such as planning networks, selecting members, setting the agenda by ranking objectives, framing and directing discourses, managing processes, resolving conflicts and promoting cooperation. In addition to legal forms, regulation can come into being in the form of assistance and support (facilitation and mediation). This concept places meta-governance essentially in the system of public policy networks, where the role of the government manifests itself according to a four-way, mutually supplementary strategy: framing, planning, facilitation and participation (Stevens–Verhoest, 2015: 5). Possible inclusions in the set of framing tools are the specification of intermediate (performance) indicators, shaping discourses by publishing best practices and the use of incentives built into the process. The planning tool can be the altering of regulations and organisational forms based on external circumstances or needs and expectations, expanding or restricting room for manoeuvre and setting milestones and deadlines. The set of facilitation tools include control over the agenda, conflict management and arbitration, furnishing

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<sup>13</sup> Studies illustrating the functioning of network governance most frequently cite, among other difficulties, asymmetrical relationships between hard-to-mobilise actors, slowly crafted and sometimes unviable compromises, as well as the lack of democratic authority and the problems of legitimacy and accountability arising from such.

<sup>14</sup> Although it is not the task of this study to give a comprehensive picture of the debates about networks in the literature or the possible typologies of networks, we do note for the sake of clarity that we ourselves agree with the idea of distinguishing between public policy networks, integrated service provision and network governance. Public policy networks emphasises the power relationships between the state and interest groups, integrated service provision on diverse forms of coordination, and network governance on multi-level interactive decision-making.

certain actors with the right of veto, thereby reinforcing their interest, activity and assumption of responsibility, and finally, sharing information. In this instance, participation means that the meta-government (the government) is itself an active player in the operation of the network, and this allows it, in possession of significant legitimacy and room for manoeuvre, to direct the processes “from within”, and in a given instance to link that the activity of a given network to the implementation of other governmental objectives.

Based on all of the above, meta-governance does not entail the “taking back of the state”, but by emphasising the role and options of the government, it does aim, by way of channels of negotiation, to create a balance between the concepts of state-centred and society-centred governance of the society and economy. (Torfing et al., 2012: 132). Consequently, the approach, regulation and institutional structure of meta-governance is the essential element of state capacity, which through the centralisation of decision-making and the development of a powerful public-administrative apparatus, as well as the required financial resources and public policy tools, contributes to strengthening governmental capability (Bell–Hindmoor, 2009: 51).

However, several problems also emerge in relation to network-based meta-governance. First of all, the strengthening of state influence in and of itself has no bearing on how the change in the nature of the state and power can be measured and what social, political and cultural contexts it can be interpreted in. Secondly, if the meta-governance – even in a more moderate form – entails the establishment of a hierarchy within the networks, it is not actually clear why, and to what extent, it can be considered a new form of governance.

In our opinion, the network-based approach to governance, as a whole, is fundamentally unable to explain the re-strengthening of the role of the state. From this it also follows that network governance can only be considered one of the sub-types in the comprehensive system of the governance concept. The appreciation and strengthening of the role of the state, therefore, can be described and understood in the broadening of the concept, by means of the introduction of new subtypes, through which meta-governance contributes a new dimension to state-centric research. The state sees its influence and impact as unbroken in the governance subsystems, but in place of the big, comprehensive structures, governance places the emphasis on indirect forms and techniques. By putting governmental coordination of self-organising networks – in other words “governance of the government” – at the forefront, meta-government has become a critical pillar of the state-centric governance concept.

#### **4. The concept and measurability of state capacity: one- and multiple-dimensional approaches**

Continuously increasing in number these days are those studies which are concerned with formulating a conceptual framework of state capacity and the operational possibilities and practices with respect to measurability (Hendrix, 2010; Hanson–Sigman, 2011; Cingolani, 2013). They take as their starting point the view that once in possession of the appropriate capacities; the state can perform its primary task of assuring a comprehensive system of norms for the common good. From this, it follows that the development of state capacities and their conversion in to governmental actions count as one of the fundamental premises of good governance.

According to the interpretation adopted in international practice, state capacity means the capability of state institutions to implement objectives regarded as – by virtue of being stipulated in the constitution, fundamental law, government programme or other statutory norms – official. Taking a closer look, however, state capacity in and of itself is nothing but an explanatory factor, typically quantitative in nature, of what potential capabilities the government possesses with regard to operating and executing the policies it has assumed. Consequently, the other key concept, typically qualitative in nature, that is integrally connected to state capacity is governmental capability, by which we mean the instrumental dimension of the exercise of power, or in other words, the mobilisation, application and/or development in a means-end relationship of the institutional, administrative, legal, financial, infrastructural and defensive capacities required for governance.

However, it should be noted that state capacities are dispersed across the various sectors and public policies to varying extents, and thus implementing different objectives requires different governmental capabilities. Nevertheless, both key concepts are highly context-dependent, meaning that they only really take on their true meaning in the course of actual governance. For example, although in an optimal case, the state's extractive capacity (to withdraw resources and levy taxes) is aligned to the capabilities needed for taxation, the tasks, type, philosophy and general accounting of the tax system are essentially determined by political decisions. In order to be able to draw conclusions on governmental performance that, while based on facts, can also be generalised, above all the mains aspects and dimensions of state capacities and governmental capabilities, together with the ways in which they can be measured, must be identified.

#### 4.1. Conceptual and theoretical frameworks

The concept of state capacity is far from something that can be regarded as new in the social sciences. The concept's initial appearance and the development of its interpretive frameworks can be traced back to the late 1970s. The *Bringing the State Back In (BTSBI)* movement intended to set up an alternative to pluralistic and Marxist approaches, which – obviously with differing theoretical bases and ideologies – kept the state predominantly in the arena of the competition of various social groups. The state-centred concept that they represented views the autonomous power of the state as the most important assurance of the implementation of public policy objectives (Evans et al., 1985). A number of comprehensive analyses were made in this regard during the 1980s and 1990s that were already relevant in their own time and provoked passionate reactions and debates, although more recently they have taken on a new meaning and relevance owing to the changes that took place during the first decade of the new millennium.

The task of defining the concept of state capacity is made more difficult by the fact that it must be certain to avoid overlapping with those concepts that are closely linked to it in either a theoretical or empirical sense. These include good governance, institutional quality and state autonomy. To this end, it is widespread in the relevant professional literature to use – following Francis Fukuyama – the concept of state capacity in the narrower “minimalist” (quantitative in nature) sense, meaning that do not use the full spectrum of potential governmental action as their basis, but rather the fundamental

functions of the state, the effectiveness of implementing the related public policies, and its administrative resources.<sup>15</sup>

According to criticisms formulated in relationship to the minimalist concept of state capacities, the concept starts off with fundamentally flawed assumptions. Fukuyama's critics also point out that measurements of governmental performance cannot be limited only to input resources and the organisational processes of decision-making and execution, but must also take into account the factors shaping social and economic dimensions and direct measurements of the outputs and outcomes of governmental actions.

A substantive issue is what the bases of state capacities are and whether it is sufficient to speak of physical and social resources and legal-institutional frameworks or some combination of these, or – still within the minimalist concept – it is necessary to discover the impacts of historical and cultural factors. Since the availability and evolution of state capacities is determined by numerous factors, such as the overall international system, other transnational commitments, horizontal “wicked issues” such as climate change, it can also be asked whether state capacity, as an abstraction, exists at all, or if the concept is always to be interpreted relatively, at “local value”.

This diverse set of problems anticipates that the empirical approach to state capacity requires conceptual frameworks exceeding the administrative dimension, as well as a transparent, multi-dimensional structure and analytical methodology that is derived from such. For our part, what we can conclude from this is that measurements of governmental performances are able create the fullest possible picture when they examine the concept, broadly construed and broken down into dimensions, of state capacity on the basis of the state's wide-ranging tasks and their unique context-dependant features.

A non-comprehensive review of the definitions used in researching and measuring state capacity serves as a suitable starting point for expanding the analytical and methodological frameworks (figure 1). The majority of them confirm that in the definition and measurement of state capacities, the classical functions of state power form the benchmark: (armed) protection of the citizens, the right of tax collection and enforcement. In other words, the administrative dimension discussed earlier is supplemented by the extractive (extraction, fiscal) and enforcement (military, police) capacities. By summing up the recurring elements, we can arrive at the following experimental definition: *the execution/enforcement of policy measures arising from state power or will through the state bureaucratic organisation, principally by employing means that include legislation, tax assessment and institutions of state violence.*

Based on all of the above, it can be established that while approaches regarding state capacity, as well as empirical measurement methods, are rather diverse, they can still be classified under one or more of the following functions of state power: a) coercion/military, law enforcement; b) fiscal; c) administrative/executive; d) transformational and industrialising; e) relational/territorial ; f) legal; g) political; h) demographic and population policy-related.

<sup>15</sup> According to Francis Fukuyama, the most influential representative of the minimalist concept, the essence of governance is the “capability of a government to legislate and implement laws, as well as to provide services, regardless of whether it is democratic or not.” With this, Fukuyama regards governance not as a process, but as a “governing capacity” fed by state capacities, in which other subsystems – thus including the business and civil sectors – do not play a significant role (Fukuyama, 2013).

Researchers use three different approaches in measuring state capacities: 1. selecting a single general measurement, 2. using narrow one-dimensional proxy indicators in relationship to the conceptual framework, or 3. they develop a composite multi-dimensional index (or set up different measurements for the various dimensions). A review of the indicators used to measure state capacity shows that the most significant ones are the indicators related to the economy, especially to taxation, while at the same time the number of indicators examining legal enforcement and the legal environment are surprisingly low compared to the state's obligation to function according to the rule of the law and its need for robust regulation.<sup>16</sup>

#### **4.2. The structure of state capacities: one- and multi-dimensional approaches**

Based on the above, we can conclude the concept of state capacity becomes understandable and measurable when broken down into different dimensions. Nevertheless, in order to give a tight and clear formulation of the concept, it is often a one-dimensional measurement that is selected, allowing one to deduce from the quality of the chosen dimension – for example, the wealth of the state, the quality of the public service or the budget situation – the entirety of the state capacity. The one-dimensional measurement is suitable for examining the impact of a specific factor in relation to a similarly specific dimension of state capacity, for example, what effect the degree of corruption has on economic growth. The disadvantage of the one-dimensional measurements is that they are inherently unable to give the “big picture” of state capacities as a whole. What constitutes an advantage, however, and even added value, is if the dimension comprising a subject of examination, starting from a unique aspect, points to other factors of state functioning, and this enables the mutually influential factors to be better identified and the relationship between them to be mapped. The effectiveness and efficiency of tax collection, for example, reflect not only the capability of public administration: they also reflect the degree of social trust, in terms of the extent to which the government is capable of making the society accept its fundamentally unpopular measures (increased audits, the introduction of new types of taxes).

Standing in contrast with the one-dimensional concept of state capacity is the multi-dimensional breakdown, which starts from the point of view that one cannot uniformly and universally determine and understand state capacities from the perspective of methodologically grounded evidence-based measurements. The multi-dimensional approach is not only “tailor-made”, meaning that the measurements integrated into the nature of the given dimension provide suitable evidence, it also has the advantage of allowing the dimensions to be broken down into further sub-areas in order to examine the relationship between the phenomenon that one wishes to measure and the appropriate indicator.

In the course of identifying the dimension, two additional criteria should be considered. First, is it worth focusing exclusively on the fundamental functions of the state? And second, to what extent should one distance oneself from the similar concepts and approaches regarding state capacity mentioned above? A good guideline for this is provided by Hanson

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<sup>16</sup> The measurements are saddled by numerous other problems in addition to the conceptual uncertainty, such as the lack of reliable and internationally comparable time series, as well as of an analytical display of the effects of a changing environment.

and Sigman, who within their overall concept of state concept differentiate among three fundamental integrally related dimensions that express the main functions of the state, these being the extractive (taxation), coercive and administrative state capacities (Hanson–Sigman, 2013: 3). These three dimensions entail the general underpinning of state capacities: the availability of resources, public administrative and military control over the country's territory as well as loyal and well-trained public servants and institutions.<sup>17</sup>

The breakdown represented by the two authors can also be followed since it does a good job of showing the interrelationship between the dimensions and the opportunity and importance of mutual support. Without enforcement capacities, the political stability that is capable of increasing revenues is not created. Without a bureaucracy that functions on a high level, state revenues cannot be guaranteed, and this leads to the weakening of enforcement capacities. Finally, without revenues, the state will possess neither adequate enforcement capacities nor a strong bureaucracy.

Naturally, these three dimensions cannot be interpreted on their own. Securing revenues is one of the state's essential function, which in addition also encompasses numerous other capacities that are important from the point of view of exercising state power. The state must have the means through which it can communicate with citizens, become capable of collecting and systemising data, possess the required set of personnel, create and understand the legal tools needed for the functioning of the tax system, and last but not least, possess adequate authority and public trust in order to assure the compliance and cooperation of taxpayers. Enforcement requires similarly comprehensive capabilities in order to protect the borders, avert external threats and maintain order internally, as well as to execute public policies. By assuring the required competences, developing effective mechanisms for monitoring and coordination and using a wide range of tools for communicating with population groups, the administrative capacities can turn into capabilities.

Against the background of the above, state capacity is a multi-level, multi-dimension integrated concept that means more than the sum of its parts. This is due to the interactive effect that results if the quantifiable ratios change between the given dimensions of capacity. In other words, a higher value found for some dimension does not necessarily lead to an improvement in the aggregate result. Just to mention an example, numerous surveys have reached the conclusion that those states with major military expenditures and high-level enforcement capacities must at the same time contend with high corruption risks if the administrative capacities, to date, show significant improvements. Consequently, the value of the net result of the aggregate state capacity can decline despite the fact that the value of one or another dimension showing significant improvement. This entails a major potential pitfall that can only be avoided with measurements that take into account the various dimensions and unique country-specific characteristics of the concept of state capacity.

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<sup>17</sup> The multi-dimensional character of state capacity is clearly shown by Hendrix's (2010) methodological typology, that differentiates among three areas: the military capacity, the administrative capacity and the coherence and quality of political institutions.

## 5. General characteristics of measuring national-level governmental performance

Numerous international organisations are engaged in measuring state capacities, governmental capabilities and governmental performance overall. The players in the measurement and evaluation “industry” strive to generate comparable data, time series, averages, trends, rankings and reports, arranging them into strategic databases. With respect to their reliability, however, a distinction must be drawn between the reports and expert analysis published by Eurostat (the EU’s statistical office) or the OECD, and the rankings based on the expert opinions of international NGOs and consultancies. Currently, around 130 different index and country rankings measuring economic or social development are in use. The indicators used in them receive a value level or grade in professional or governmental analyses. The essential aim of the international measurements is a global comparability with impacts that advance the development of governance quality and the related debates.

Even in the case of individual country reports, however, the conceptual frameworks, measurements and data from international organisations does not necessarily react to the unique, country-specific problems, and their professional analyses are often not based on the most recent data, with the methodology also sometimes lacking transparency. The evaluation of individual countries is carried out by experts commissioned by the given organisation, and this sometimes calls into question whether the norms of objectivity and impartiality are being met. In sum, all this shows that what is needed in addition to measurements from international organisations – without denying the importance of such – are measurements of governmental achievement at the national level that are capable of capturing unique problems, of updating the data from international measurements and, when needed, correcting them.

In recent years, numerous nation states (Austria, Finland, France, Ireland, Scotland, as well as certain constituent states, such as Virginia in the United States) have made strong efforts, in addition to measuring organisational performance and the adequacy of direct outputs in terms of resources invested, to devote increased attention to the outcome-based approach and methodology to measuring governmental performance. According to their starting point, without determining the expected medium- and long-term outputs and outcomes and, in addition, measuring the progress toward their implementation, it is not possible to create a realistic picture of the efficiency and quality of the function of the public sector or of the satisfaction of the citizenry. Observations show that well-functioning systems come into being in those cases where a professional and social consensus is formed on long-term strategic objectives, and when this is the basis on which the critical impact areas to be measured and the national indicators that fall under them are selected. International comparison is an important criterion, but not one to be used at any price. If a data series that is suitable in terms of its methodological and chronological parameters is not available, then instead of using proxy indicators, the national measurement systems prefer to develop new indicators.

Since the measurements react to the unique objectives and problems of the given country, the results also give important feedback separately to the individual ministries about the implementation of plans related to their areas, such as the functioning of available human and infrastructural resources. Decision-makers receive background

materials and impact assessments that are not only factually based, they also measure and analyse the chronological dynamic of the change in the indicators under examination. Consequently, their useful value emerges from the combination of the functions of the *scoreboard* and the *government dashboard*. For citizens and representatives of the NGO and commercial sectors, however, it helps explain in clear language what measures the government has taken toward realising the objectives, where progress stands, and what factors are helping or impeding the pace and substance of the progress. To this end, some countries make these accessible to private individuals and various user groups.

Measurements of national achievement simultaneously serve to advance objectives of efficiency (feedback, evaluation) and of improved transparency, responsibility and accountability. Demonstrating the importance of this is the fact that more than half of all OECD countries have their own performance measurement system (OECD, 2016: 5).

Comparing the systems developed by the individual countries shows that despite the obvious differences, there are also some common features. A widespread practice is that of constructing the evaluation systems at the initiative of the government, but only through broad social and professional consultations. From this, it also follows that open access is an important criterion, as is providing user-friendly applications. The databases created in this manner are typically the products of the finance or another ministry or department (In the United Kingdom, it is the Department for Environment, Food and Rural Affairs), special governmental bodies (in Austria, it is the Office of Federal Performance Measurement), or else a product shared between the prime minister's office and the central statistical offices (Finland).

In terms of their concepts and functions, the systems are most frequently related to performance-based budgeting, social progress and, as a part of such, community well-being.<sup>18</sup> Of priority importance is the complex approach to social progress and development, which is evaluated across at least three dimensions: whether it is capable of fulfilling the most essential needs of the citizens of the given country, whether those elements that increase and maintain the well-being of individuals and communities are in place; and whether the possibility exists for everyone to be able to exploit their own gifts and opportunities.

Appearing among the impact areas of the measurements in the systems of nearly every country are the economy, society and environment, which – with varying emphasis from country to country – are also supplemented by dimensions of health care, education, governance, security, international influences, social equality and climate change. The number of key indicators (main indicators) assigned to the impact areas ranges between 20 and 50, but it must also be taken into account that in the course of measurement and data population, the individual indicators are further broken down into partial indicators. The indicators falling under the economic impact area include employment, unemployment, capital investments, the level of R&D and the debt ratio, to mention a few examples. In the case of the society impact area, indicators measure public safety, income equality, poverty, gender equality, life-satisfaction, while the environment is typically measured by indicators of the emissions rate, energy consumption, use of natural and renewable

<sup>18</sup> The report of the Sen-Stiglitz-Fitoussi Commission (2009) and the OECD's Better Life Index ([www.oecdbetterlifeindex.org](http://www.oecdbetterlifeindex.org)) can both be considered to form an important background and conceptual starting point.

resources, and prevalence of natural habitats. The selections of indicators clearly show the differences in attitudes between individual countries: the French system is based on the employment rate, while the British system is based on long-term unemployment.

### 5.1. An example of good practice: the Scottish government's performance measurement system.

In 2007, the Scottish government introduced the output-based National Performance Framework (NPF), and a year later launched the regularly updated Scotland Performs website with the aim of providing up-to-date information regarding Scotland's progress in achieving the objectives specified in the NPF. The aim of Scotland Performs is to serve as a continuously developing, yet reviewable resource for the evaluation of governmental performance.<sup>19</sup>

The comprehensive performance measurement and evaluation system set up by the Scottish government works in a hierarchical, multi-level structure. At the top is a comprehensive vision for the future, according to which governmental measures and the state's resources must serve the purpose of making Scotland become an even more successful country and give the entire country the chance to grow and flourish through sustainably expanding economic growth. The vision is broken down into 11 general objectives that lead to the overall aim. The aims set forth in the vision are realised through five focused, strategic objectives, and set additional nationally strategic achievements as their objective (what must be achieved, and what target must be reached within ten years) (*figure 1*).

Situated at the bottom of the pyramid are 50 national indicators that serve to track and measure the realisation of objectives.<sup>20</sup> The indicators actually rearrange the areas of responsibility in the government, and thus the emphasis shifts from organisational frameworks to key areas and objectives (for example in the areas of health care and education).

From a methodological viewpoint, it is important to mention that both the individual objectives (e.g. economic growth) and the national indicators (e.g., export growth) are built into a uniform structure:

- Current situation – emphasised, since this is the most important information, subject to the greatest interest.
- Why is the given objective important?
- What influences this objective?
- What is the government's task?
- How do we achieve it? (It compares these first to the objectives of the United Kingdom as a whole, and then to those of smaller EU countries, showing descriptions and figures.)

<sup>19</sup> For the rest of this sub-chapter, we will use material from the NPF website ([www.gov.scot/About/Performance/ScotPerforms](http://www.gov.scot/About/Performance/ScotPerforms)).

<sup>20</sup> A few of the 50 indicators: increase in the number of enterprises; development of digital infrastructure; improvement in Scotland's reputation; children's health; increase in expenditures on R&D; mental well-being; reduction in the number of lethal road accidents; improvement in people's perception of their neighbourhood; improvement in the responsiveness of public services.

In most instances, the source of the indicators is the Scottish government itself (including ministries and their background institutions), and to a lesser extent by the government bodies of the United Kingdom. The validation of the indicators is carried out by the assessment group consisting of leading civil servants and analysts (The Scotland Performs Technical Assessment Group).

The NPF's methodology always carries out the actual evaluation of the performance based on the extent of the change that has occurred in the data from the last two measurements, not in relation to a pre-determined starting point. The time intervals between the data points change by indicator and objective, and thus the values shown by the individual indicators apply to periods of governmental activity of different length. Consequently, although the NPF's performance measurement also performs a "control panel" function, it is not built around a reference basis approach, but rather to the measurement and evaluation of changes occurring in governmental performance over short-term periods. The value factor assigned to the indicators (positive or negative) expresses the evaluation of the direction of the change.

On this basis, the methodology classifies the change in the indicators into the following four categories:

improving performance	unchanged performance
weakening importance	data collection in process

Implementing the NPF is the task of the ruling Scottish government, coupled with the "maintenance", updating and analysis of the website and the data. The selection, evaluation and updating of the national indicators is carried out by experts appointed by the government and representatives of the public sector requested for this purpose. Established to coordinate the tasks was the Scottish Government's Performance Board, a separate body that is responsible for updating both the NPF and the national indicators. The renewed NPF and list of national indicators go into effect with cabinet approval. This also means that the NPF is established and functions under government direction, in a top-down manner, and does not attempt to channel the opinions and recommendations of various social subsystems.

## 6. Conclusions and recommendations

At the foundation of our study is the view that the state is in a unique position to institutionalise various rules and norms across its own territory and to provide, through its centrally controlled bodies, comprehensive coordination of the society, public goods and public services, along with enforcing responsibility and accountability. In order to assess how all this works in practise, it is worthwhile asking and debating the following questions: what role do governments in power play in the operation of the current modes of governance? How, and in what context, are the aspects of the modes of governance (principles, strategies, tools and actors) and the interactions taking place between them shaped? When, how and why do governments decide to alter the modes of governance employed previously? How efficient do the new modes of governance prove to be in coordinating public policy? How do the changes made in the modes of governance affect

the economic and political context of governance, and how does all this apply in reverse? This study undertook to examine, among the issues, the factors and trends shaping the concept of state-centric governance, with special regard to what extent the definitive theoretical and conceptual frameworks in the professional literature and scholarly discourse constitute an organic unity with the methodology and core categories applied in the course of empirically based measurements.

A comprehensive analysis of the evolution of the governance paradigm shows that the definitive trends of the 1990s that emerged on the basis of the neo-liberal concept – “the hollowing out of the state”, “society-centric governance”, NPM and network governance – all, albeit with varying content and emphasis, essentially endeavoured to empty out and relegate to the background the traditional role of governance and its toolbox. After the turn of the millennium, ever more frequently appearing social pressure, later intensifying as a result of the financial and economic crisis that started in 2008, together with political and professional criticism led to the growing demand for strong single government, horizontal integration, and strengthened coordination between decision-making levels and sectoral areas. Nevertheless, the realisation of this – regardless of whether we call it state-centric governance, the post-NPM era or whole-of-government governance – does not bring a radical change in the mode of governance, nor does it bring a return to the traditional practise of governance. Experiences of the present and recent past show that the central role of the state remains the organisation and operation of governance, and it possesses the authority and the resources and tools of power needed to change the governmental organisation. Consequently, it can choose which mode of governance to employ in the case of a given public policy or a complex problem to be solved, as well as whom to involve, and when and for how long, in order to implement what purposes, in what institutional and legal form, according to which conditions, in order to provide public duties. Governance, therefore, exists in different forms and performs its tasks accordingly. Governments, in possession of the required authority, can choose among the hierarchical, market-based or network modes and toolboxes of governance. Regardless of which solution they choose, it remains their responsibility to operate the system of governance in a fair and efficient way, as well as practical implementation of democratic responsibility and accountability.

Therefore, any effort that suggests the compulsion to choose between the state- and social-centric concepts of governance is misleading. Governments continue to remain in possession of the hierarchically functioning tools of command and control, while governance entails the sum of tools, strategies and social relationships assisting governmental activity. On this basis, it makes sense to speak of the state-centric approach to governance, which incorporates, on the one hand, the strengthening of the centre of government, the rationalisation of background institutions and, in contrast to the “wild overgrowth” of NPM, developing diverse and multi-level institutions of coordination. On the other hand, although it does not rule out the self-organising forms of the society-centric concept based on “embedding” and networks functioning on the relationship principle, these are obviously interpreted from the point of view of the state and meta-governance.

If we hold state-centric governance to be an independent concept based on clearly discernible criteria, then legitimate grounds for the need for empirical testing emerge. The increasing responsibility of the state and the government, as well as the practice of

the integrated approach needed to provide increasingly diverse, often overlapping, tasks, requires increasingly significant state capacity and governmental capabilities, the creation, “maintenance” and continuous development of which can be regarded as an integral part of day-to-day governmental practice. Assuring efficient operation and sustainable results, along with state reforms that are capable of self-reflection, necessitates the development of a measurement and evaluation systems and continuous operation that gives feedback, focusing on specified impact areas, about substantive elements and changes in governmental efficiency.

The indicators and rankings published by international organisations, while undoubtedly indicative, neither provide a direct assessment nor react to unique, country-specific problems, contexts, and their reports are frequently not built on the most recent data. All of this clearly indicates the need to develop unique national-level performance measurements and national indicators that react to problems and contexts and rely on the most recent data.

A substantive element of governmental capacities and capabilities is for a political community to promote the creation, based on a vision for the future built on its common values, of an overall government strategy and system of objectives, as well as to provide for the operation and harmonisation of the planning, performance measurement and evaluation mechanisms that, supported by fact, specify in a widely understandable fashion the results and effects expected from governmental activities and the chronological timeline for achieving them. The measurements, on the other hand, provide regular feedback on the amount of progress that has been measured with regard to the objective and, in a broader context, provides an incentive for actors inside the public sector to work, within their own organisational frameworks and through their use, at their own level to achieve the objectives as efficiently as possible. The results-based approach entails a fundamental change in outlook: coherent and concentrated strategic planning integrated into a medium- and long-term vision for the future, harmonisation of objectives set and budgetary frameworks, the monitoring and evaluation of such and the regular review of both the methodology and the indicators. Finally, for the citizens, in addition to providing adequate transparency regarding strategic governmental objectives and the progress being made on them, it also reinforces the level of trust in government.

In our opinion, state-centric governance, the definitions and interpretations of state and governmental capabilities, and the aspects of measurability are each grounded in the relevant scholarship and methodology and have demonstrable added value. At the same time – disregarding a few forward-looking exceptions – what is still lacking is the crystallisation of a coherent concept that is unified across the theoretical and empirical mosaics and applicable to the world of research studies and performance measurements. Constituting a good basis for the acceleration of the creation of such are the state research studies which, through their theoretical backgrounds and by identifying issues, clearly indicate the need for collecting, developing and employing national-level performance measurements and national indicators reacting to individual problems, and which react to contexts and rely on the most recent data.

## Annexes

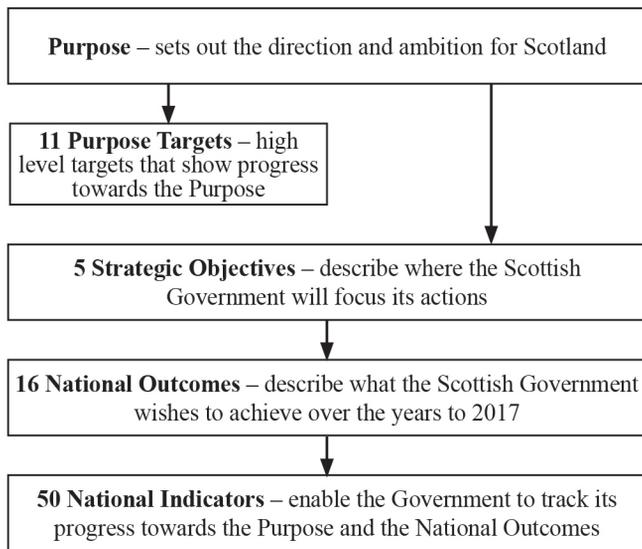
Table 1  
*Interpretations of state capacity in the professional literature*

Author	Theory of state capacity	Dimension emphasised
Tilly (1975)	In the course of the process by which states formed in Western Europe, the concept of statehood can be defined as the building of repressive state power, which “effectively extracts the required resources from the local population and controls the reactions on the part of the population to avoid the extraction.” (40)	Coercive and fiscal
Skocpol (1979)	“Sovereign integrity and stable administrative and military control exercised over the given territory are the precondition for state capability with respect to any governmental action. In addition, the loyal and skilled official apparatus and the availability of plentiful financial resources entail the basis for an effective state in achieving its numerous objectives.” (16)	Bureaucratic/ administrative
Rueschemeyer–Evans (1985)	Effective state intervention in the economy. Needed in order to intervene in the economy are a skilled bureaucracy and coordination and good coordination of the state bodies.	Transformational and administrative
Evans (1995)	The key to state capacity is “embedded autonomy”: the power of administrative isolation and a certain level of state embeddedness in the productive sectors.	Relational, transformational and bureaucratic
Mann (1984)	Despotic power is “the system of measures that can be taken through the authority of the state elite without conducting regular institutionalised consultation with civil society groups.” (Mann, 1988: 59) Infrastructural power is “the capability of embedding into civil society and the capability of executing political decisions.” (59)	Administrative, relational and territorial
Migdal (1988)	Capacities are “those capabilities of the leaders, exercised through state organisations, that persuade people to do as the leaders wish” (1988:2) or to “achieve those social changes that its leaders are attempting in the course of transformations, their policies and actions.” (4) One particular capability is “embedding in civil society, regulating social relationships, extracting resources and devoting them to specified aims.” (4)	Relational and territorial
Geddes (1966)	“The capability of executing political decisions initiated by the state that depends on its capability to tax, regulate and shape action affecting actors in the state’s private sector, as well as on the efficiency of bureaucratic decisions made during their execution. However, all aforementioned capabilities presuppose the existence of efficient bureaucratic organisations.” (14)	Fiscal, coercive and administrative
Evans–Rauch (1999)	“Weberianness” is in essence a measurement of the organisational feature of the most important state bodies of how characteristic selection based on merit and a dependable long-term career system is of those bodies.	Administrative
Fukuyama (2004)	State capacity is the “capability of states to develop and execute policies and to enforce the law in a lawful and transparent fashion.” (9)	Administrative and legal

Author	Theory of state capacity	Dimension emphasised
Besley–Persson (2008)	“The central element of state capacity is the capability of levying taxes, from which it can finance and provide for the transfers of public goods.” (522)	Fiscal
Kocher (2010)	The five key criteria of strong states: a) centralisation and unification; b) wealth and the capability of taxation; c) professional bureaucracy; d) few restrictions on the regime; e) a strong military.	Coercive, fiscal, administrative and political
Dincecco–Prado (2012)	Fiscal capacity is “the capacity of the state to collect tax revenue.” (172)	Fiscal
Knutsen (2012)	State capacity indicates public policy successfully executed through an efficient and lawfully functioning bureaucracy.	Administrative, legal and fiscal
Fukuyama (2013)	Capacity is determined based on bureaucratic inputs. These include, for example, the level of education of state officials.	Administrative

Source: Compiled by the authors, based on the sources cited

Table 2  
The Scottish National Performance Framework



Source: Financial Scrutiny Unit Briefing: The National Performance Framework and Scotland Performs (7 February 2012) Source: [www.scottish.parliament.uk/ResearchBriefingsAndFactsheets/S4/SB\\_12-12.pdf](http://www.scottish.parliament.uk/ResearchBriefingsAndFactsheets/S4/SB_12-12.pdf). (Accessed: 21 July 2016)

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# Security, trust and good governance

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## 1. Introduction

Creating security is one of the most fundamental requirements for both people and actors in the business and NGO sectors. Strengthening security conditions and ensuring a safe environment is one of the most important tasks of good governance, and a key factor in the establishment of trust in the government. The existence of trust in the government is in itself a security factor, and can reinforce the general feeling of security. The meaning of security can be interpreted in various ways, and a general, comprehensive definition of the concept of security has not yet been developed. In relation to security and governmental capabilities, international organisations have only provided assessment in specific areas, namely *political security*, *legal security* and *external security*. Because of this, it is appropriate to define clear frameworks and parameters for each dimension of security. This research attempts to organise categories related to external security, public safety and disaster management, legal security, and security of livelihood. Trust in government is strongly linked to a general feeling of security and its objective surroundings. Lack of trust decreases people's feeling of security, and effectively weakens security conditions.

Trust in government is influenced by governmental capabilities and governmental productivity, though these are not the only factors involved. For example, in Hungary historic experience and stereotypes can also be an underlying cause of current attitudes regarding trust: Hungarians still recall the effects of the disappointment felt after the developments proceeding the fall of Communism and the 2008 financial crisis, as well as the apolitical or sceptical attitude in society formed during the years of socialism. The experiences of Hungarian history have sown the seeds for habitual doubt, something which still influences feelings towards Hungarian people's relationship with politics today. Research on trust has highlighted its importance in anthropological, sociological (Émile Durkheim, Max Weber, Pierre Bourdieu, Andorka Rudolf), economic and political (Alexis de Tocqueville, Robert Putnam, Francis Fukuyama) contexts (see results of MTA study: Sajó, 2008). SRI regularly carries out surveys and analysis on the interdependencies of the value of society and economic structures and public safety (SRI, 2013). Specific trust indicators measure certain public institutions or fundamental social structures (civil society, financial institutions, the media, legal system). The measurement of public trust in the government

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and governmental matters are also present in both domestic and international systems.<sup>2</sup> The OECD (Organisation for Economic Co-operation and Development) measures trust in government by surveying opinions in different countries. In the 2013, OECD government overview (Government at a Glance, GaaG 2013), the trust in government index showed a decrease in trust for three quarters of the countries analysed (between 2007 and 2012), with an OECD average decrease of 5% (45% to 40%) in the trust index, with Hungary dropping from 25% to 21% (OECD, 2013).<sup>3</sup> According to the 2015 overview, the trust average for OECD member countries rose to 42%, while there was a significant improvement in Hungary (33%). According to SRI's index, in Hungary, trust in governmental institutions (values of 1-10) increased between 2009 and 2013 (in the government from 2.3 to 3.95 and in parliament from 2.9 to 4.13).

The measurement of governmental capabilities is based on the classifications by the UN in COFOG (*Classification of Functions of Government*). This nomenclature lists the functions typically provided by the state and government, and by classifying government expenditures according to this structure, it allows for the quantification of both the extent of the government sector from a financial perspective and the functions provided. Starting from 2010, the HCSO has also shown statistical data on government expenditures, based on national accounts, according to the COFOG breakdown.

The five dimensions of impact for security and trust

1. external security
2. Public safety and disaster prevention
3. legal security
4. governmental public confidence and transparency
5. secure livelihood

## 2. External security

In its strictest sense, external security relates to the government's capability (defence strength) to provide protection from external attacks (force or aggression), and to prevent, avoid or deter the use of external military force. This concept comprises both military force and the potential for military security alliances (collective defence).

In its broader sense, external security can include the status of the balance of power in terms of government foreign policy, international political and economic (geopolitical) relations (multidimensional security evaluation evaluation). A broader definition can also include measuring aspects of financial security, energy security, cyber security and ecological security (Curtin–Vessel, 2005; Born–Beutler, 2007; Gartner, 2007; Gazdag, 2011; Hamada, 2013; Szenes, 2013). Creating external security plays an ever larger role in

<sup>2</sup> The confidence/trust in government indicator, among others, can be found here: World Gallup Poll: World Values Survey Eurobarometer, Edelman Trust Barometer.

<sup>3</sup> The index is based on the Gallup World Poll, a proportional, stratified survey of thousands of interviews with citizens from the respective countries from Gallup, the public opinion research institute, making an overall assessment by measuring the following dimensions: trust in local police, trust in the healthcare system, trust in the judicial system, trust in the education system, and finally trust in the national government. For more information: [www.gallup.com/services/170945/world-poll.aspx](http://www.gallup.com/services/170945/world-poll.aspx). Accessed: 12 September 2016

government responsibilities, dominated by the instruments, procedures and methods of the various fields of security. Forming a comprehensive approach to security is a significantly complex activity, as it is very hard to measure security, and international solutions are still in an embryonic stage (Kis et al., 2014: 9).

In the 1970s, NATO introduced the united defence planning system, with the intention of securing national contributions, though most of the figures (especially results relating to capabilities) were not made public, and were only available to the highest political and military leadership. During the Cold War they began measuring the size of the armed forces, operational capabilities, dislocation capacity, the value of the forces offered to the alliance and the size and composition of the military budget. This was enhanced with the parameters of the “NATO operations” peacekeeping activities (including size of the armed forces, their composition, given mandate for activities, possibility of deployment), as well other indicators regarding contributions and quantifying activity (such as expeditionary capability). In this field, however, the main indicator of good governance from a national perspective is the ability of the government to “integrate” NATO into the country’s military defence.

The measurement of external security services by the EU is also in continuous development. The first two assessments (2010, 2011) primarily assessed the workings of EU institutions, common external foreign policy activities regarding three strategic relationships (USA, Russia and China), neighbouring countries and the MENA region, as well as the fields of multilateralism and crisis management. The indicator list put out by the European Council of Foreign Relations (ECFR) forms a basis as a broadly accepted and complex measurement system for foreign policy. EU member states are evaluated across 60-80 indicators for their contribution to Europe’s key areas of external relations. It is upon this basis that member states receive evaluations of “leader”, “slacker” or “weak”. The indicators always measure national support and related contributions to issues, matters, initiatives, negotiations and actions that are important from the perspective of the EU’s foreign policy, and the evaluation examines the extent to which the given member state’s actions conform with EU goals (unity), the extent of the political and financial resources it devotes to the area, and what the results of its activities are. An increase in “leader” classifications is a positive trend, while more “slacker” classifications shows a negative trend. Data has existed for Hungary since 2012. On the basis of these results it is possible to create a concrete, accurate picture of the results of EU external policy and the results of member states’ governmental activities.

The *Good State and Governance Report* measures external security using the defence strength (military) dimension. The indicators refer to government’s capability to provide protection against an external attack (violence or aggression) and to prevent, avoid or deter the use of external military force.

From the resources (input) side, defence expenditures and the number of armed forces show a change in quantitative factors of capability. In statistical terms, defence spending must be distributed according to population. The data can be found as part of the basic information in the Hungarian Statistical Yearbook. It includes expenditures for the Hungarian Army, military educational institutions, military health-care institutions, the Ministry of Defence and its organisations, the Military National Security Service, military research and development, as well as international peace-keeping missions. The level of enlisted crew personnel has fluctuated slightly since 2007, but remains at approximately the same level. Data on the armed forces recorded by the Hungarian Central Statistical Office (HCSO)

shows figures on the number of retired personnel (former military), the number of officers and the number of non-commissioned officers. The headcount of the Hungarian Army, military educational institutions, military health-care institutions, the Ministry of Defence and its organisations and the Military National Security Service are included as part of the main information in *The Hungarian Statistical Yearbook*. One other source of indicators is changes in and the amortisation of the military defence technology and equipment of the Hungarian Army.

A comprehensive international measure of military strength can be found in the Global FirePower Index (GFP). The 43 indicators of the GFP index measure countries' military strength, before then creating one power index (PwrIdx) indicator, used to develop a ranking of the military strength of different states. Using comparative indicators, the GFP index is able to compare larger, developed countries with smaller, developing countries. Although the military power index measures combat potential across a broad dimension, in the interests of comparability, it also employs corrective factors that make the comparison realistic (for example, comparison of naval powers with landlocked countries). The GFP takes into account all types of combat operation of the armed forces, their human, financial and natural resources, their logistical capabilities, as well as the country's geographical position. Hungary has been included in the measurements since 2013.

The measurements of military strength are indicated by changes in annual expenditures on foreign military assistance, which largely depends on the international environment and the need for Hungary to provide assistance in relation to this or otherwise. The data contained in COFOG sub-section 2.3.0 accounts for the costs of support for those defence expenditures assigned to military activities taking place in a foreign country. The indicator shows the entire sum per 1,000 population.

The feelings of the Hungarian population in relation to external security were not measured. The method of questioning is complex: what information forms the base of the population's perception? Information regarding NATO alliance defence force is not publicly available, while interpreting sentiments regarding security in light of current international events and the influence of the media could be seen as likely to confuse the matter.

### **3. Public safety and disaster prevention**

The public safety dimension measures the government preventative, investigative and punitive capabilities in relation to phenomena hazardous or harmful to public order. Public safety is a subjective, emotional concept and includes the disaster prevention capability, which assures protection against harmful natural and industrial events. An intrinsic aspect of the approach to public safety is dealing with terrorism. It is also essential to look at the complete handling of enforcement personnel resources, and an overall assessment of the number of police personnel, prosecutors, criminal judges and correctional staff.

The classic tool for measuring the state of public safety is crime statistics. One of the factors in these results is governmental capability for crime prevention and law enforcement, or the state of order. This element can have many distorting factors, including changes in substantive criminal law or in the (cumulative) nature of the ratings, of legal technicalities or of the growth of institutional economic situational needs. An "improvement" in these

numbers can also be somewhat two-faced, given that an increase in the number of crimes can imply a deterioration in public safety. The number of investigations does not also show the final decision of the judge, often made years later. This is also true for statistics regarding individuals caught committing a crime. The Unified System of Criminal Statistics of the Investigative Authorities and of Public Prosecution uses a complex and multi-faceted logic. From this we have chosen to follow some representative groups, for example the number of registered “violent crimes”. There are three type of offences which can be highlighted: intentional homicide, intentional assault and robberies represent violent crime as a share of all crime. These three types of crime, however, are relatively permanent in terms of substantive criminal law, e.g. the new Penal Code (Act of 2012) that entered into force on 1 July, 2013, did not substantively affect findings, nor the chronological comparison of statistical indicators.

One indicator of public safety is the subjective measurement of public safety. The trends in safety indicated in the Social Research Institute (SRI) survey on institutional trust, including public trust in the police force (local public safety). The OECD measurement should be used with regards to public trust in the police force (“local police”) (Government at a Glance methodology). The government’s capacity to prevent and investigate crime is influenced by the public’s confidence and subjective perception of safety, but also by numerous other objective factors, especially media communications. An examination of trends surrounding the issue of “the population’s trust in the police” can be based on the results of assessments made in 2013, by the HCSO. The basis of the indicator is the following question on the questionnaire: “How safe do you feel when you walk around your neighbourhood after dark?” The four possible responses are “I feel very safe”, “I feel quite safe”, “I feel slightly unsafe” and “I feel very unsafe”. The answers can be broken down into further groups according to the characteristics of the respondents. In addition to community type, it is also possible to analyse answers by age group and level of education.

Disaster protection comprises three fields: fire protection, civil protection and industrial safety. A public opinion survey on public sentiments as a subjective indicator has not yet been carried out. Objective indicators can include statistics on activity, number of people working in disaster prevention and system integration and efficiency.

In many cases disaster prevention cannot be measured effectively, as it is not possible to work with exact rescue figures. This is why it is instead possible to look at the question in terms of resources, using data on state expenditure and the number of people involved in disaster prevention as starting metrics. Resource indicators measure annual governmental expenditure (per 1,000 inhabitants) on public order, civic defence, fire and disaster prevention. COFOG sub-section 2.2.0 comprises state support for the operation of the Civil Guard and stockpiled food and medicine for disaster situations, sub-section 3.1.0 does the same for the operation of the police and border security, and sub-section 3.2.0 assesses both professional and volunteer fire brigades. The adjusted statistical system requires public order and public safety to be combined in one resource indicator.

The efficiency of this is difficult to measure. In terms of disaster prevention there are primarily metrics based on activity. Human resource systems take measurements according to sector and general requirements of the system. Educational measurements are carried out according to the requirements of the relevant discipline. The results of the effectiveness of disaster prevention have been measured according to the new system from 2012. In relation

to emergency management, measurements are documented from both disaster prevention and the state system. The procedure includes the assessment of data on the number of people involved, quantity of technological tools and expenditure incurred.

The measurement of government capabilities regarding anti-terrorism differ from the measurement of public safety in terms of the handling of the aftermath (emergency or disaster solutions following a terrorist attack). The effectiveness of terrorist prevention can be measured according to international standards and procedures. This means activity carried out to reduce the vulnerability of people, building and infrastructure. The measurement of crime prevention includes terror attacks and the prevention of terrorists through their identification, arrest and elimination, and the effectiveness of secret service counter intelligence.<sup>4</sup> Counter-terrorism is now a specialised section of defence, requiring a specialised organisation within law enforcement as a whole. The respective indicators (as input) can be thus evaluated.

#### 4. Legal security

Legal security is an important factor in creating a sense of security for both citizens and for businesses, and is one of the building blocks of democracy, the rule of law and fundamental rights. Legal security engenders trust in the legal system and the creation of security of the rule of law is imperative. The most fundamental aspect of legal security is trust in legislation and due process.

In terms of security and trust, the formal and narrowest definition of legal security is trust in legislation. Most international measurements would define our examined criteria as quality of regulation.<sup>5</sup> *A formal concept of legal security is that the content of the law properly adheres to wider approaches to democracy and the rule of law. In the wider definition of legal security, the rule of law – as the basic element of a legal state – can touch on numerous different aspects: checks and balances in the system of power, effective legal defence, open governance and transparent and accountable lawmaking. The wider approach to legal security examines justice in terms of core democratic principles and legal protection. The OECD Rule of Law project has provided possible formal indicators for its members.*<sup>6</sup>

Objective indicators for trust towards constitutional law can include:

- The level of known laws is measured through the expansion of online legal publications.
- Figures relating to the operation of the deregulation system show the codification standards of regulation. The rate of anti-constitutional legislation is distorted, but

<sup>4</sup> International measurements can be highlighted by the Europa TE-SAT (EU Terrorism Situation and Trend Report) report, published annually since 2007. Database: Global Terrorism Database or RAND Database of Worldwide Terrorism Incidents.

<sup>5</sup> EU QR: regulatory quality.

<sup>6</sup> It covers the following perspectives: limited government powers; corruption; clear, publicised and stable laws; order and security; fundamental rights; open government; regulatory enforcement; access to civil justice; effective criminal justice; informal justice.

can be taken into consideration. The number of amendments to new legislation and government policies within one year is also a multifactor indicator, though this tendency may raise questions of quality.

- The existence of a post legislative scrutiny system, and related figures demonstrating the quality of legislation.
- Opinion surveys relating to public sentiment on legislation is rare. This is because only a small proportion of the population can count on their own experience, and this is also regarded as relatively low priority in defining good governance.

International measurements are based on the logical framework of the World Justice Project (2015) access to justice, good laws and good process. The assessment was carried out with the involvement of the general population and experts. Two sets of data were completed in the 66 assessed countries, using public opinion surveys for the general population and questionnaires. The OECD Government at a Glance report (2015) indexes and ranks member countries in part in terms of limits on governmental power and defence of fundamental rights, based on the results of the World Justice Project. The UN rule of law indicator examines institutional approaches to the state of the police force, the judiciary and prisons. Data sources: administrative data, professional analysis, public survey research, document review. The three institutions include 135 indicators: 41 indicators refer to the police force, 51 to the judiciary and 43 to prisons.

Worldwide Governance Indicators (Kaufmann–Kraay, 2014) measures regulatory quality. The European Commission’s Communication “Smart regulation” on EU quality legislation appeared in October 2010 (COM (2010) 543 “Smart regulation in the EU”). The main elements of quality regulation include new requirements, placing a strong emphasis on consultation to achieve a social dialogue, the measurement of the impact legislation has on the society and carrying out post-impact assessment.

The other pillar of legal security is trust in legislation and due process. These indicators demonstrate a government’s capability to use general legal tools to strengthen trust in the rule of law. The application of justice is an independent branch of power in which government interference is restricted by law. Indicators of the effectiveness of the courts in service of justice only reflect government capabilities indirectly and in exceptional cases. For this reason, measurement of the effectiveness of the judicial system is not part of the sub-area. In 2013, the EU launched a measurement system (Justice Scoreboard) for this area, which builds on the EU data from the Council of Europe Commission for Evaluation of the Efficiency of Justice (CEPEJ).<sup>7</sup>

In terms of sentiment towards legal security, according to an SRI survey, trust in the Hungarian legal system increased between 2009 and 2013 (from 4 to 4.78). Using a different methodology, the HCSO’s 2014 survey measured an average of 5.1 on a 10-point scale. The size of the sample is around 13,000 people. The indicator is derived from the average

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<sup>7</sup> For civil, commercial and administrative matters, the following indicators are used: a) Efficiency of Justice Systems: the duration of the procedures, the number of suspended cases; b) quality: the training of judges, judicial monitoring of the activities of the courts’ budget and staff resources, ICT, alternative dispute resolution (ADR); c) Independence: measurements are taken regarding sentiment.

of the answers, on a scale of 0-10, of a distribution of respondents based on different groups to the question, “How much trust do you personally have in the legal system?”

The resources of the judicial system can ensure legal security in the state branch of power. The financial resources indicators for the justice system are annual government expenditures on the justice system and corrections per 1,000 population. COFOG sub-section 3.3.0 contains expenses for civil and criminal courts, ombudsmen and public defence lawyers, and sub-section 3.4.0 contains expenses for the operation of jails and prisons, and other institutions engaging detainees.

An important aspect of legal security and the judiciary is the quality of administrative law. Objectively “measurable quality” are decisions taken within a lawful and reasonable period of time. A lack of appeals by the relevant parties (state and defendant) demonstrates that these criteria are met by the decision. The decline in the number of litigated cases related to administrative matters received by courts of first instance points to satisfaction with regard to administrative decisions.

A similar logic applies to another aspect of legal security; the quality of the administration of justice in a court of law (civil law). Objectively “measurable quality” refers to decisions taken within a lawful and reasonable period of time. A lack of court appeals demonstrates that these criteria are met by the decision. Following this, the share of litigated civil court cases submitted to a second-instance court for appeal as a proportion of all first-instance litigated cases in the given year shows the degree to which first-instance decisions are accepted in litigated civil cases. It should be noted that the HCSO data allows for comparison between first- and second-instance submissions of cases in the subject year, but not their completion.

The completion of trials in a reasonable time period underlines trust in legislation and due process and feelings of security. Reducing the reasonable amount of time required for procedures to be completed, and the time required for public administration, is one of the basic indicators for the efficiency of legal administration in the EU CEPEJ measurement system as well. The rationality for duration of trials should and can – in certain segments – be measured. A reasonable lawsuit still depends on the given surrounding circumstances of the case, but a two year average per case can be considered reasonable. The percentage (%) of first-instance civil litigation procedures which, as prolonged cases, are completed during the subject year after more than two years relative to the number of all first- and second-instance civil litigation cases completed in the given year.

## **5. Public trust in government and transparency**

There is a close relationship between trust in government and the general sense of security for citizens and businesses. The state of the general sense of security can be both a cause and effect. This is why we consider public trust in government an indirect factor of security. The last indicator of security, public trust, is a subjective, emotional question. Trust in government is continually analysed by political organisations. The OECD governmental overview (Government at a Glance) measures public trust in government on the basis of telephone interviews.

However, the primary indicator of public confidence is the outcome of the parliamentary elections. For reasons of comparability over time, the proportion of parliamentary seats in elections to all seats gained or lost over four years – correlated to midterm elections – give a reliable picture: in the given election year, the proportion of parliamentary mandates won by the governing party or by the party coalition or party alliance as a percentage of all mandates (%) in the parliamentary elections for the given year.

Another objective factor in public trust in government is transparency in government operations. Transparency in itself is a fundamental legal and democratic right. The level of transparency is strongly correlated with citizen trust, and shows the government capability for openness. The essence of transparency lies in the availability of governmental public-interest information and the openness of policy analysis and decision-making processes. The means strengthening transparency and trust is the government's capability to prevent corruption. The primary factor in determining quality of governance is social sentiment regarding government corruption. Transparency is the indicator of government integrity, i.e. resistance to corruption.

The European Union produced its own evaluatory framework regarding the results of corruption and the fight against corruption in 2014. The EU anti-corruption reporting system contains a comprehensive evaluation of all EU members, including Hungary. It is significant that as well as its critical approach, the EU also places great emphasis on spreading best practices. It recognises, for instance, that Hungary has implemented new tools to help enhance the integrity and transparency of public administration, and also assess whether its ambitious anti-corruption policies have proved effective. In addition to analysing the situation of individual states, the European Commission also engages in extensive public opinion research, with questions including: "Is corruption widespread?"; "Has the respondent asked for or been offered bribes in the last year?"; "Is corruption an obstacle to business activities?"

The OECD carries out assessment and evaluations in order to examine the manner in which private interest conflicts are handled, lobbying laws, and the operation of protection systems for people reporting corruption. Internationally-speaking, the most well-known measure of sentiment regarding corruption is Transparency International's Corruption Perceptions Index (Transparency International, 2016).

In terms of Hungarian statistical tools, it is worth noting that the State Audit Office of Hungary (SAO) operates a system to measure the risk of corruption in public institutions. The aim of the measurements is to assess – based on self-reported data requests – exposure to the risk of corruption in the public sphere and the level of so-called integrity controls used to reduce these risks. The data for the year 2010, was available in a different breakdown, which is why it was not possible to compare this year according to types of support. The Controls Mitigating Risk Factors (KMKT) index reflects whether or not institutionalised controls exist at the given organisation, whether they are currently in operation and are carrying out their intended purpose.

Another significant element of transparency is the public availability of data and openness regarding data. The development of technology leading to mass access to information has led to change in the relationship between citizen and state (see Chun et al., 2010). The state's role is increasingly less that of producing data, but rather to create new platforms which data can be connected to. In recent years we have witnessed numerous

open government initiatives. The G8 have adopted the Open Data Charter (Cabinet Office, 2013), which defines five elements: open data; quality and quantity; usable for all; making data accessible in the interests of better government; making data accessible in the interests of innovation. Based on the principle of accountability and democracy, the document specifies models of openness towards data for governmental contact points, election results, the lawmaking and regulation, payments (payment classifications), hospitality and gifts. The opening goal of the Open Government Partnership initiative is to improve access to information on government activities, as well as support for social participation, utilising the requirements of the highest standards of professional integrity in order to increase administrative operations, as well as the openness and accountability of new technologies.<sup>8</sup>

The Open Knowledge Foundation, located in Britain, in 2013, launched the Global Open Data Index (ODI) with the aim of measuring the state of open government data in different countries and the accessibility of certain databases, thus contributing to public debate and encouraging countries to publish public data of sufficient quality. The index contains data on more than 60 countries, including Hungary, and annually updates and re-examines data with the help of experts from the countries involved. The help of expert evaluations (peer reviews) ensure the truth and accuracy of the data.

The Open Data Index<sup>9</sup> methodology highlights some data which have practical relevance to everyday life, and then uses these to form a cumulative overall index. The datasets are as follows: transport timetables; government budget; government expenditure; election results; company register; national map; national statistics; legislation; location datasets; pollutant emissions.

This methodology can also throw light on the quality of the data, meaning that in terms of the public interest the data is not understood simply in binary terms of yes and no, but is also based on the criteria of quality:

- Does the data exist? Is it recorded? (5)
- Is data in digital form? (5)
- Is it publicly available? (5)
- Is the data available for free? (15)
- Is the data available online? (5)
- Is the data machine-readable? (15)
- Is the data available in bulk? (10)
- Is it openly licensed? (30)
- Is the data up-to-date? (10)

The resulting figures from these nine different criteria are weighted in relation to the data, meaning that if the multiplier is higher, the methodology takes the greater weight into account. The system works with objective, verifiable data, while its further development (Open Data Census)<sup>10</sup> has created a possibility for citizens themselves to get involved in the assessment and share results with the help of an application.

<sup>8</sup> Source: [www.opengovpartnership.org/about/open-government-declaration](http://www.opengovpartnership.org/about/open-government-declaration). Accessed: 12 September 2016

<sup>9</sup> Source: <https://index.okfn.org/about/>. Accessed: 12 September 2016

<sup>10</sup> Source: <http://national.census.okfn.org/>. Accessed: 12 September 2012

The principle of transparency also plays an important role in the Hungarian legal system. The Fundamental law places a strong emphasis on ensuring transparency in public financial management, with article N) stating that “(1) Hungary applies the principle of balanced, transparent and sustainable budget management.” The Fundamental law article 39 refers to the public disclosure of data, as well as the principles of public financial management.

The handling of public data and the measurement of data openness are well represented by the fluctuating growth in the number of public information requests made of the Hungarian National Authority for Data Protection and Freedom of Information (NAIH). One of the NAIH’s tasks is monitoring and promoting the enforcement of the law regarding the openness of information of public interest or in the public interest.

## 6. Secure livelihood

The household livelihood security indicators relate to the ability of the government to assure a minimal livelihood. Secure livelihood is measured using governmental data sources on social protection. As well as social expenditure, the measurement of the poverty-decreasing effects of social benefits are also significant. COFOG chapter 10 totals state financial and in-kind expenditures on social protection and social benefits for those in need of assistance. The indicator gives the data in this chapter divided by the census figure at January 1, calculated per 1,000 population, in nominal amounts. At its Laeken summit in December 2001, the European Commission introduced 18 common shared statistical indicators for measuring poverty and exclusion (Laeken indicators). Of these, the proportion of relative income poverty (%) reflects the percentage of the country’s population that lives in a household where the household’s income does not reach 60% of median equivalent income (the relative poverty threshold). Social benefits covered by the state to a large extent determine what proportion of the population’s income exceeds this poverty threshold. The indicator is based on the difference between the values for people receiving social benefits and those for people not receiving them (with pensions considered to be income), expressed as a percentage. As an interpretation: this is the extent to which the state’s social benefits reduce the proportion of the population in impoverishment. The base data is derived from the annual OSAP 2015 Household Budget and Living Conditions Survey interview and the OSAP 1968 supplementary module to the Household Budget and Living Conditions Survey.

One of the most serious risk factors of the security of livelihood is unemployment, the lack of regular income. This does not just a danger to the individual, but also affects the standard of living of their family. A decrease in unemployment leads to a decrease in risks to security of livelihood. The other basis for feelings towards security of livelihood is security in living conditions. Living circumstances and living conditions are demonstrated by changes in the number of people per bedroom.

Measurement of the population’s sentiments regarding household finances has been continually carried out since 2012. The HCSO has assessed public perception by surveying 13,000 households. The basis for the indicator is the following question on the questionnaire: “How do you think your household’s financial situation is likely to change

over the next 12 months? Will it improve, remain unchanged, grow worse, or don't you know?" The possible answers are available in various breakdowns (according to age of the primary wage earner, community type, level of education of the primary wage earner, and the composition of the household in terms of individuals).

The other HCSO measurement of public perception relates to whether there is a feeling of financial security. The basis for the indicator is the following question on the questionnaire: "Would your household be able cover a major unexpected expense from its own funds?" The yes-or-no answer is also available in various breakdowns (according to age of the primary wage earner, community type, level of educational attainment of the primary wage earner, and the composition of the household in terms of individuals).

Changes in the real value of the minimum wage is one of the important indicators of income security, shown by the difference in a given year between the nominal rise in the minimum wage (expressed as a percentage relative to the previous year) and the level of inflation. The minimum wage is determined by government decree for each year. The annual consumer price index is calculated and published by the HCSO. (The data shows the degree to which the rise in the value of the minimum wage relative to the previous year was greater or lower than the general consumer price index. A positive value means that the real value of the minimum wage grew, since it grew more than the change in the consumer price index, while a negative value means that the real value of the minimum wage declined, since its rise remained lower than the increase in inflation in the same year.) The indicators of the real value of the minimum wage have shown a relatively high positive level since 2011, in contrast to the 2007-2010 period, when the value fell.

## 7. Conclusions

The objective of the Good State and Governance Report indicator system is to measure governmental performance and results. The issue of security occupies an important place in the system of governmental responsibilities. Today, the „security crisis” has become a phenomenon that perhaps gives greater emphasis than ever before to security matters in the workings of government. This is related to the increasing threat of terrorism. In Europe, this centres on the Middle East war crisis, “failed states” and societal collapse, poverty and climate changes leading to increasing migration, enhances security challenges. The wealth of misinformation on the internet is another factor in increasing risk, increasing citizens’ feeling of insecurity both directly and indirectly. Governance is important, but not the only factor in ensuring objective and subjective security. There is no direct correlation between objective security factors and citizens’ feeling of security. As a consequence, these measurements assess certain effects from which direct conclusions cannot be drawn regarding the performance of the government. It is a function and responsibility of researchers and analysts to determine what kind of value should be placed on the government regarding measurements of security. The above reasoning also shows that the perspective of trust in the state and the government is primarily dependent on the feeling of security of the citizens. Discourse in politics is increasingly related to issues of security. Security and trust are two primary human instincts and have a strong relationship with emotion. I trust in he who protects me. If the feeling of danger increases, confidence grows in the giver of

security, and governments bearing the responsibility, thus increasing trust. Security factors (sources, institutions) and the measurement of the critical mass of sentiment can give rise to conclusions which relate to the performance of the government. Any conclusion must be treated with reservation, as mass media and sentiments regarding personal security and trust do not follow political logic, and can even lead to paradoxical effects.

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# Methodological observations and principle directions for further development of research conducted in the public well-being impact area

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## 1. Introduction

The improvement of public well-being, as a key social and economic aim, is an impact area belonging to the category of target-type impact areas, and is closely linked to the impact areas associated with security and trust, as well as democracy. On the other hand, the asset-type impact areas that are of great significance to it are those of economic competitiveness and financial stability, as well as of sustainability and effective administration.

Our analysis in the *2015 Good State and Governance Report* took the approach of moving away from the economic-type evaluation of public well-being prevalent previously and shifting towards a broader examination of quality of life. Rejecting the expediency of using a single indicator, we selected and employed indicators belonging to the three pillars that make up the ‘dashboard’ of public well-being: material well-being, quality of life and sustainability.

It was not through GDP or indicators originating from GDP that we analysed the make-up of material well-being; we instead defined it through indicators relating to the dimensions of disposable household income, poverty, social exclusion, employment and education. The prime aim of analysing this important dimension was to show how the position of the household, or within that, the individual, exerted a manifold influence on people’s well-being, and collectively did the same for the state of society and public well-being. When it came to selecting indicators to measure social exclusion, in addition to objectively capturing the circumstances of those in poverty, and expressing inequality, an important criterion was also to include the indicators used to formulate both domestic and international development goals.

In analysing the indicators describing the dimensions of public well-being, we gave special consideration to the *change in governmental capabilities* in relation to public well-being; meaning, on the one hand, the general direction and character of economic and social policy, and on the other, its role in influencing public policy measures taken during the given time

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period. The results of this were reflected in the key findings and conclusions shown in presenting the achievements signified by the individual indicators.

Bearing these focal points in mind, our analysis contributing to the development of the *2016 Good State and Governance Report* sought to increase the emphasis – by means of providing a detailed analysis of the concept of governance capability in the context of this impact area – on making indicator-based analysis a *more relevant analytical tool at policy level* and on making the system genuinely suitable for assessing the operational performance of the given areas. We believe that there are two ways to achieve this objective.

1. *Applying in Hungary the indicator systems used for this impact area in international surveys, and placing the measured results in a Hungarian context.* The latter is crucial because internationally published papers follow the logic of describing (and often organising), indicator by indicator, the values measured in each country, frequently failing to take into account the relationship between the individual indicators, the exchanges or the varying economic performance of the individual countries. This would involve the development of a detailed sectoral indicator system under the aegis of the *Good State and Governance Index* – ideally, adapted to the list of indicators used by international publications – because in this case the lion's share of the job of methodological development will already have been done, allowing Hungary to focus on the analysis of its own context.

2. *Studying a different focus area each year.* Every year research could focus on various different issues of the given impact area (sector), which would provide adequately profound analyses. These focus areas could be selected in keeping with the international trends and innovations of the given sector. Assessment would not, therefore, focus on the overall evaluation of education or healthcare, but rather, each year a key aspect could be surveyed in Hungary and policy proposals made in that respect.

## **2. Reaction to responses and suggestions to the 2015 Good State and Governance Report**

Some of the responses and suggestions to the *2015 Good State and Governance Report* need to be taken into consideration in the research of the public well-being impact area. These include the following:

- The request to include the most recent data available, in this case up to 2013. For example, the number of K.5.3 taxpaying private individuals is expected to become available shortly.
- In connection with the research methodology and the use of good practices it would be better to present a broader international integration. This suggestion is acceptable; however, it can only be accomplished progressively. Until now we have chiefly sought to satisfy compliance with international standards.
- It is desirable and appropriate to present the relationship between the indicators from several perspectives: to develop the regression relationship of measure vs. impact in the context of increasing state capacity, by means of differentiating, firstly, the positive impact triggered by state measures, and, second, their failure to do so and the reasons behind them.

*Detailed expert opinions* propose not to change the types of indicators or their numbers; chiefly to make the indicators of the *2016 Good State and Governance Report* comparable with those of the year 2015, and also because the need for thorough and detailed analysis, as suggested, can be met through the *development and application of sub-indicators*, for example in the areas below:

- The K.1.2. sub-indicator (average monthly net earnings of employed persons, HUF) could be applied for the publication of employees in the private and non-profit sector.
- The K.3.3. sub-indicator (per capital value of social benefits, HUF) could be used, broken down by main types of benefit.
- With respect to the main characteristics of the K.2. dimension (social exclusion), examination of the geographical distribution is a good idea, but due to the current lack of data, it will take a long time to accomplish.
- The K.3.4. indicator (number of places in nurseries, i.e. children aged 0–3) could be updated to include a sub-indicator on the number of places in kindergartens (i.e. children aged 3–6), albeit provision of kindergarten places is an obligatory public task, while that of nursery places is not.

Currently we do not see any possibility of accepting any further suggestions regarding the use of sub-indicators, on account of conceptual confusions or conflict with international standards. For example, we do not consider it appropriate to change the term ‘közoktatási rendszer’ (public education system) to ‘köznevelési rendszer’ (roughly speaking, public ‘teaching’ system) because the former focuses on the ‘institutional’ character, as opposed to the ‘pedagogical’ focus of the latter, which falls outside the scope of the measurability of good state and governance. As regards the suggestion to survey the maintenance capability of the country, we consider it appropriate to use the indicators of the international standards on account of problems of definition. Furthermore, we do not consider it justified to present the proportion of technical/engineering graduates among the holders of university degrees, because instead of a breakdown of graduates by subject area, we prefer to focus on the role this important group plays in the operation of the state as a whole.

There is a continuing need for so-called ‘soft’ perception indicators in this impact area, in spite of criticism levelled at the K.5.1. and the K.5.2. indicators (satisfaction with life and meaningfulness of individual activity, respectively), which argued that they were ‘elusive’. Contrary to this view, the positive ‘subjective’ value of these types of indicators is widely accepted, including internationally.

### **3. Evaluation of the methodology and the indicators of the 2015 Good State and Governance Report, and new development pathways for content and methodology in the 2016 report**

#### **3.1. The income situation dimension**

The first dimension of the impact area of public well-being deals with the statistical description of the financial situation of Hungarian households and of individuals living in households. The financial situation assumes a key role in the complex context of

the well-being of the population. Not only does it directly affect the well-being of individuals, and consequently the public and community, by means of improving standards of living, but also affects the housing standards, recreational and leisure opportunities of a family, and the amount of money they can spend on health preservation. More than anything, the level of income can affect the well-being and the mental disposition of the individual and the household, on account of the fact that work income as feedback on performance establishes the individual's self-esteem and well-being, and consequently, lays the foundations of the community's social position. In this dimension, we employed the most frequently used indicators of objective well-being variables to reveal financial situation.

The economic processes characterising a country are reflected in the financial situation of households, which is essentially determined, alongside economic and social policy measures, by the economic performance of that country. Consequently, the headline indicator measures total corrected disposable income for the household sector, an indicator that ultimately reports on the balance of primary income of Hungarian private households on the basis of national accounts.

In the balance, income from work and social benefits, as well as revenues from financial assets, have a positive value; property-related contributions a negative value.

The number-one variable of material well-being in the international well-being indicator systems is household net adjusted disposable income, which is consistent with the value of total adjusted available income based on national accounts; however, its advantage over the latter is that its interpretation is not limited to macro-level. The advantage of using household net adjusted disposable income per capita would be that it affords the possibility to produce further, detailed analyses revealing the characteristics of households, considered on the basis of various criteria to be typical or atypical. It would also be interesting and important to present a breakdown by source of income from work and social benefits, since it is this aspect that best highlights the role of the state and of government intervention in financially supporting households.

The OECD's *Better Life Index* (OECD 2015a) presents two indicators regarding the income dimension. The first is household net adjusted disposable income, which includes, net of direct taxes and contributions, that a household earns or receives in the form of social transfers in kind. This indicator measures the amount of money available to a household, which the members of that household can spend on goods or services.

The second indicator in the OECD's index provides a measure of households' financial wealth. A household's net financial wealth consists of assets and sources, and takes into consideration savings, outstanding property items, cash and savings, bonds, stocks and loans. All of the information measured by the OECD's two indicators is included in the indicators of the income dimension of the *Good State and Governance Index* (GSI). The set of five indicators in the GSI presents a considerably broader and more detailed overview than the OECD's dimension.

*Eurostat* has a set of *Quality of Life indicators* (Eurostat 2015a) with seven categories. The first is material living conditions, which is divided into two; the first deals with incomes, the second with deprivation. The five indicators describing incomes include equivalised and median disposable income, current relative poverty levels and their changes relative to a threshold anchored at a specific point in time. The combined average income of

the third and fourth quintile groups of equivalised income relative to the national average can be used to determine the financial situation of the middle class. The third and fourth quintile groups of equivalised income constitute that segment of society whose financial situation is better than the median, but do not count among the richest 20%. The ratios allow conclusions regarding changes in the income of individuals who are better off than the average, but not financially well-off, relative to the entire population. Eurostat's set also includes a 'satisfaction with financial situation of the household' indicator. The GSI's indicator system has very similar objective indicators concerning income; however, the GSI separates the presentation of the income and financial situation indicators of society as a whole, from the indicators of socially disadvantaged, poor or deprived groups, which also include relative poverty figures.

It is noteworthy that the Eurostat's indicator system incorporates, among objective indicators, the subjective variable of 'satisfaction with financial situation of the household'. International trends are finding it increasingly justifiable to measure what, for example, the 2009 Report by the Stiglitz Commission sets as an objective, to measure the quality of life and the well-being of the population with subjective variables, alongside traditional objective ones. An important methodological milestone was the realisation that, jointly and combined, objective and subjective indicators give a considerably better and subtler picture of social phenomena than the objective or subjective approach alone. The fact that subjective variables have gained ground is confirmed by Eurostat's comprehensive quality of life report (Eurostat, 2015b), whose chapter on material living conditions first presents the traditional chart of average income per capita and goes on to explore from various aspects and by means of ten figures on eight pages the overall satisfaction with the financial situation of the household.

Published in 2013, the Hungarian Central Statistical Office's (HCSO) *A jóllét magyarországi indikátorrendszere* (Indicator system for measuring well-being in Hungary) (HCSO, 2013) is reflective of this attitude. Not unlike Eurostat's system, the dimension describing material living conditions incorporates both objective and subjective variables. Objective indicators include employment rate, the proportion of households with very low work intensity, as well as the fundamental variable describing financial situation: net income per capita. The dimension also includes two subjective variables which assume a crucial role in revealing the material living conditions of the population. Satisfaction with financial situation provides feedback on the experienced level of material living conditions. Sense of material security seeks to grasp an extremely important phenomenon: the indirect relationship between financial situation and mental well-being. Material goods not only contribute to the well-being of the individual by means of the conversion to objects and experiences, but the sense of security derived from their mere existence significantly affects the disposition of the individual or local community. A positive perception of the future assumes the ability and security on the part of the individual to always, under no matter what circumstances, rely on being able to mobilise adequate material resources.

As regards objective indicators, the GSI provides a broader perspective than the HCSO's well-being indicator system on income and financial situation. We would also suggest considering the inclusion of *subjective indicators and happiness indices* to measure and describe this impact area, because they can contribute to a more thorough and comprehensive description and examination of the phenomena in question.

### 3.2. Social exclusion dimension

The second dimension of the public well-being impact area focuses on the phenomenon of social exclusion. Eloquent indicators measuring existing inequality reveal the state and quality of society as a whole. Whatever the given form of exclusion, it is not merely the private matter of individuals, households or larger communities, but rather, it says a lot about the characteristics of the country and its society. Social exclusion is a broader concept than material exclusion, and although their complex contexts are difficult to explore, a causal relation can be established between the two. It can be assumed that social exclusion is rooted in the lack of financial means. Where a family lacks the means to acquire goods and services beyond the bare necessities, the consequences are physical and mental distance, a lack of information and experiences, and ultimately its exclusion from society. A complex phenomenon, it can be passed down many a generation. Due to the lack of adequate financial means, the quality of children's education, the family members' health condition, the quality of their recreational/leisure activities, the individual's social capital and social identity will fall short compared to individuals and families unaffected by the risk of social deficit.

All five of the indicators of the social exclusion dimension are widely used and accepted at international level. Consequently, international comparison is guaranteed in every respect. International organisations using social statistical data, including the UN, the OECD and Eurostat, use the same indicators in the area of social exclusion.

Poverty and social exclusion are terms that have been used in Europe since the Treaty of Nice (2000). The fight against poverty is currently a top priority of the European Union, and in this respect the Council of the European Union defined several headline targets in the Europe 2020 strategy. The most important target is that by 2020, 20 million fewer people should be at risk of poverty or social exclusion in the European Union. The EU has declared the restoration of economic growth and the considerable improvement of labour market conditions as the most important factors in the fight against poverty.

The European Union developed a complex indicator to measure the risk of poverty or social exclusion, which gives the broadest possible definition of poverty. The main indicator of the affected group is AROPE (At Risk of Poverty or Social Exclusion), the abbreviation of 'at risk of poverty or social exclusion'. It jointly measures three factors: lack of adequate income, the circle of unattainable goods and relationship with the labour market.

Eurostat's AROPE, which is also a headline indicator in the GSI's social exclusion dimension, measures people or households who are affected by any or either relative poverty, severe material deprivation or low work intensity. These three indicators are sub-indicators in the GSI's social exclusion dimension, in addition to relative poverty rate among children. The three sub-indicators of AROPE are relative income poverty, severe material deprivation and low work intensity. Relative income poverty affects individuals with an income lower than 60% of the national median equivalent income, that is lower than the poverty level.

People living in severe material deprivation refers to adults and children in a household who, according to their own account, have no access to essential goods for financial reasons. A subjective indicator, it is measured on the basis of specific items, but not only reveals the lack thereof, but also whether the individual or the household believes deprivation is due to financial reasons. Consequently, an individual is severely deprived if they cannot afford at least four of the following items: (1) to pay their rent, mortgage or utility bills; (2) to keep

their home adequately warm; (3) to face unexpected expenses; (4) a meal involving meat, fish or equivalent nutrient every second day; (5) a one-week annual holiday away from home; (6) a car; (7) a washing machine; (8) a colour television set; (9) a telephone.

The third element of the AROPE headline indicator focuses on relationship with the labour market and its material and social aspects. Very low work intensity (in-work poverty) is defined as the number of persons living in a household having spent no more than a fifth of their possible working time in work over the past year. The disadvantage is clearly not only financial. The lack of personal interaction at a workplace, lack of access to the flow of information, the lack of experiencing productivity and development are just a few of the factors in the context of in-work poverty that negatively affect the life of the individual and the family. As a long-term effect, children growing up in low-work-intensity households will come to assume the lack of work as the norm, and this kind of poverty can be passed down generations. Connected to these detrimental social phenomena is the fourth sub-indicator of this dimension, income poverty risk among children. While as a general approach in social research it is appropriate to talk about poor households and families rearing children, rather than child poverty, it is nevertheless an urgent problem that needs to be dealt with, and not only because we are talking about children vulnerable to their environment but also because the spiralling of child poverty and the continuous widening of the segregation gap present a considerable challenge to government intervention.

The system of indicators is perfectly adapted to the fact that objective social indicators and subjective indicators based on perceptions of the population complement each other. In addition to the income-based poverty rate, there is a variable that reveals experienced deprivation. All five of the indicators of the dimension follow an established, internationally standard, common methodology. Jointly, the objective and subjective variables constitute the headline indicator of this dimension of the GSI, a complex and global poverty indicator, which measures the proportion of individual or households affected by poverty or social exclusion.

The activity of the HCSO in reviewing the *calculation of minimum subsistence* affords new possibilities in the examination and analysis of poverty and social exclusion. Consequently, with a view to future use, we shall provide an outline of the new calculation. The calculation and publication of minimum of subsistence indicators have a long tradition in Hungary. The HCSO has, since the 1920s, published data subsistence costs. The minimum of subsistence indicator is based on the definition of the consumer basket. Over the years and decades, keeping pace with changes in society and accessible groups, it was necessary to revise from time to time the consumer basket essential to simple subsistence. Most recently in 2014, the HCSO initiated a review and renewal of the calculation of the minimum of subsistence. Numerous technical problems, as well as problems of substance and methodology had occurred in connection with previous consumer basket or methodology used. The most urgent problem in terms of interpretation and practical use was perhaps the fact that the name of the indicator did not reflect the contents of the calculations. The designation 'minimum of subsistence' suggests that anyone living under that level can barely stay alive. Consequently, the designation refers to drastic deprivation and starvation. Conversely, as regards the method and content of calculation, it can be established that the indicator measures the amount of money required to provide a decent standard of living relative to current social norms. The current index cannot serve its purpose as support for decisions,

a role that has come to be expected from a social indicator because the number of individuals living under subsistence level as calculated by methodology is so large, and the group so socially heterogeneous, that the indicator ultimately fails to identify truly deprived groups.

With a view to renewing its calculation of minimum of subsistence, the HCSO has developed, proposed and published two possible approaches (HCSO, 2015a). The first considers the calculation of ‘absolute’ poverty in the methodological sense, which is a statistical approach traditionally used in the United States. This procedure is based on the cheapest acceptable food norms, and uses a multiplier to estimate non-food consumption minimums. The proposed Hungarian adaptation includes, in addition to the minimally required food norm, a parameter measuring the proportion of food costs relative to the household’s entire consumption. This parameter measures the material quality of life in inverse proportion, since the wealthier the household, the smaller the proportion of food costs in its total expenditures.

The other proposed innovation aims at keeping the consumer basket-based procedure but reviewing the calculation parameters. The current minimum of subsistence calculation is based on a consumer basket compiled by the National Institute for Food and Nutrition Science, which covers the ‘nutrient-, vitamin- and mineral needs of medium physical effort of an adult male, in keeping with relevant requirements of health and nutrition science’ (HCSO, 2015b). The revision of the consumption basket has clearly become necessary. In its calculation procedure, the new methodology is expected to take into consideration the fact that the structure and composition of the total consumption of households in various financial situations – that is, the way a household’s total consumption is divided between food, clothing, leisure, household furnishings, etc. – will vary considerably. Another innovation seeking to increase the accuracy of the data is revision of the consumption unit scale. The proposed calculation of indicators – which is, firstly, based on a fictitious consumer basket with a lower daily calorie count, and, secondly, uses international standard OECD2 consumption unit scale – will enable the normative social minimum indicator to present policymakers with a fair view.

### 3.3. Health care and social safety net dimension

Due to the complexity of the health care sector, the few indicators that are included in the index fall short of contributing to an accurate policy assessment of the given sectors. This is highlighted by the fact that the OECD’s publications, such as *Health at a Glance – OECD Indicators*, describe the operation of these sectors by means of several dozens of indicators (with numerous subcategories and groups). As a member state of the European Union and a Member country of the OECD, we consider it appropriate to adopt two international indicator systems.

The *European Core Health Indicators* (ECHI) define 88 indicators in five dimensions. Some of indicators are still being developed, but international comparative data are available for approximately 50 indicators. The examined indicators are the following:

- demography and socio-economic situation (such as birth rate, total unemployment);
- health status (for example life expectancy, incidence rates of chronic diseases);
- determinants of health (for example smoking and physical activity);

- health services (for example care costs, the numbers of practicing physicians, nurses, hospital beds); and
- health promotion (for example policies on healthy nutrition).

It is a constraint that many of the indicators are currently being developed; however, it is likely that the ECHI set of indicators will increasingly be used in international evaluations.

The OECD's *Health at a Glance* indicators. In this case, it would be appropriate to use as a reference an indicator system specifically focusing on Europe rather than one that covers the broader group of the OECD's Member countries. *Health at a Glance – OECD Indicators* describes the operation of health care systems by means of 53 indicators in six dimensions:

- health status (for example life expectancy and incidence rates of diseases);
- determinants of health (for example smoking and alcohol consumption);
- health care resources and activities (for example the number of hospital beds, the number of cataract surgeries);
- quality of care (for example avoidable hospital admissions; screening, survival and mortality for different types of cancer);
- access to care (for example out-of-pocket medical expenditure, waiting time); and
- health expenditure and financing (for example health expenditure in relation to GDP, financing of pharmaceutical expenditure).

One example of how health care indicators are used is the OECD's study (OECD, 2015b). *Government at a Glance: How Hungary compares* measures government performance under the OECD–Hungary Strategic Partnership by means of the application of indicators. The number of indicators was considerably lower than in *Health at a Glance*, and while the OECD has made a huge leap forward in putting indicator values in a local context in its country-specific analyses, duly substantiated policy recommendations require a more thorough analysis.

If, appropriately, the annual analyses continue to highlight specific focus areas, there are several possibilities from which to choose. The focus areas might include the following:

- the role of IT in health care and e-health solutions;
- the changing role of hospitals;
- the financing of pharmaceutical expenditures;
- health behaviour and health development; and
- the co-operation of health care and the social sphere: integrated care.

Owing to the paramount importance of health financing, it is appropriate that the 2016 report should include the sub-indicator of *health expenditure in relation to GDP*. According to the methodology based on the national health care accounts, this indicator compares health expenditure (excluding investments) to annual GDP. A breakdown by sources of financing gives an idea of the proportion of state health expenditure to the population's health expenditure.

### 3.4. The employment and education dimension

The public well-being impact area uses *the population's economic activity* as a headline indicator to describe employment. This is justified, among other things, by the fact that the percentage of employed persons to the working age population is a crucial social indicator for studying developments on the labour market. The main indicator has a sub-indicator concerning the *number of public workers*.

In any economy there is a distinction between the working and non-working population. Individuals belong to the working population if they are able to work on the basis of their age and state of health. The active population comprises individuals who wish to work at a given time in the labour market of a given country. Their number always equals the maximum labour supply. The inactive population consists of individuals who are able to work, but have no wish to work, their livelihood being secured by other means (as dependants or living off non-labour incomes).

The overall picture of employment would be more revealing if the following indicators were also used:

#### *A. Unemployment rate among 15–64-year-olds (%)*

Unemployment occurs when the demand for labour is higher than the supply of labour, that is, there are more people who wish to work than the number the private and public sector can employ. Where the levels of real wages are inadequate,<sup>6</sup> unemployment is likely to occur. The most frequently used measure of unemployment is the unemployment rate, which is the proportion of unemployed persons of the working age population to the total working age population. The International Labour Organisation defines unemployment rate as the number of unemployed persons aged 15–64 as a percentage of the economically active (employed and unemployed) population aged 15–64. The HCSO's definition of unemployment rate expresses the proportion of unemployed persons to the economically active population of a given age bracket, based on the labour force survey.<sup>7</sup> At the same time, this data can be further broken down as follows:

- the proportion of long-term unemployed persons (who have been out of work for over a year or longer) to the total unemployed in the 15–54 age group;
- the average duration of unemployment among the 15–64 age group of unemployed, which expresses the average duration of job-seeking in this age group;
- the deviation of the unemployment rate of 15–64-year-olds from the national average; that is the differences between regional unemployment rates in this group from the national average.

<sup>6</sup> Real wages: the amount of goods that can be purchased with a given nominal wage at a given price level, that is the purchasing power of wages expressed in money.

<sup>7</sup> Since December 2014, the meta-data used to calculate the HCSO's unemployment rate has been based on the number of the population, carried forward on the basis of the 2011, census in an effort to gross up the data of the labour force survey. To ensure comparability, the HCSO retroactively adjusted from 2006, previous estimations with the new weighting.

*In May–July 2015*, the number of total unemployed dropped by 51 thousand to 306 thousand compared to the year before; the rate of unemployment decreased by 1.2 percentage points to 6.8%. In May–July, the number of unemployed men aged 15–54 dropped by 32 thousand to 158 thousand compared to the year before; their unemployment rate decreased by 1.4 percentage points to 6.5%. The number of unemployed women aged 15–54 dropped by 19 thousand to 148 thousand; their unemployment rate decreased by 1.1 percentage points to 7.1%. In the same period, the number of total unemployed aged 15–24 decreased by 4.1 percentage points to 17.7%, albeit almost a fifth of total unemployed are from this age group. The unemployment rate of 25–54-year-olds (the so-called best working age) and that of 55–65-year-olds also decreased in this period; the former’s by 1.1 percentage points to 5.9%, the latter’s also by 1.1 percentage points to 5.6%. The average duration of unemployment, however, increased from 18.2 to 19.3 months; 48.2% of unemployed persons have been looking for work for at least a year, that is, they count as long-term unemployed. According to administrative data of the National Employment Service, the number of persons registered as unemployed at the end of July 2015 reduced by 12.6% to 362 thousand.

*B. The proportion of part-time employed in the 15–64 age group of employed persons (%)*

Part-time employment is understood to mean employment shorter than full-time; typically, 4 or 6 hours a day. Part-time employees’ regular working time, calculated in days or weeks, is less than the working time of full-time employees, based on the average of several months or a year of employment.

Part-time employment has become widespread partly as a result of globalisation, in consequence of which increasing competition between developed and developing international economic regions, and between countries, has forced Europe to relax its regulations that have contributed to expensive employment and a rigid labour market, and it has driven corporations towards more flexible employment solutions and reducing labour costs. Crucially, the service sector has become increasingly important, which has affected the spread of part-time employment. This, in turn, has led to changes in employment proportions.

*C. The change in the number of employed women aged 15–64 (%) (previous year = 100%)*

Increasing the number of employed women is an instrument to secure equal opportunities, and in this respect employers’ interest in employing women is expressed in terms of wage costs in that, since the double-income family model has become widespread, the resulting wage level is lower than in single-income families. Wage growth is hindered by the competition generated by widespread female employment, that is the growth of employment supply. The growth of female employment is beneficial to the balance of the country’s budget: through taxes employed women significantly contribute to budgetary revenues. According to the HCSO, in May–July 2015, the number of employed women rose by 28% to 1.912 million; their employment rate improved by 2.1 percentage points to 57.8%.

As regards *the complexity of education* it can be established that a few indicators included in the report are unsuitable for comprehensively assessing the performance of sectoral policies. One important methodological reference is the OECD's *Indicator of Education Systems* (INES), whose results are brought out in the annual *Education at a Glance* publications. The indicator system contains 30 headline indicators arranged in four dimensions (and the 30 headline indicators further contain numerous sub-indicators and divisions).

- the output of educational institutions and the impact of learning (for example educational attainment and its effect on participation in the labour market and the available extra income);
- the financial and human resources invested in education (for example education expenditure, the sources of financing tertiary education);
- access to education, participation and progression (for example studies abroad and adult education); and
- the learning environment and organisation of schools (for example student-teacher ratio and teacher training).

The OECD's *Government at a Glance: How Hungary Compares* (OECD, 2015b) focuses on specific indicators in the area of education; however, a broader selection of indicators is necessary to support informed policy decisions. As regards the *selection of focus areas*, selection of the following areas can be considered:

- information technology in education;
- the financing of tertiary education;
- the phases of a teaching career;
- the effect of education on social mobility;
- adult education and lifelong learning.

Methodology												
<b>Domestic net migration by regional unit:</b> the indicator expresses the difference between the number of people entering and leaving the given administrative area per 1,000 population, including both temporary and permanent migration. This reflects the attractiveness or lack thereof of the population of a given geographical area.												
<b>International net migration of foreign nationals</b> comprises the difference between foreign nationals immigrating to and emigrating from Hungary per 1,000 population in the given year. On this basis, a given country is considered a net acceptor or emitter of population.												
Indicator/dimension	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
<b>2.1.6.1. Domestic net migration per 1,000 population</b>												
<i>By region</i>												
<b>Central Hungary</b>	2.9	3.0	3.3	5.1	8.0	8.0	7.9	7.6	4.8	4.5	5.0	5.7
Central Transdanubia	0.7	0.6	0.7	1.2	-0.2	0.6	-0.8	-0.9	0.1	-0.5	-1.1	-1.2
Western Transdanubia	1.4	1.6	1.2	0.6	1.4	2.4	0.6	1.3	2.9	3.8	3.0	3.0
Southern Transdanubia	-1.2	-1.9	-1.8	-2.4	-3.5	-3.7	-3.0	-3.5	-2.8	-2.9	-3.0	-3.1
<b>Transdanubia</b>	0.3	0.1	0.1	-0.1	-0.7	-0.2	-1.0	-1.0	0.1	0.2	-0.3	-0.4
Northern Hungary	-3.1	-3.1	-3.0	-4.9	-7.7	-7.5	-7.0	-6.9	-5.2	-4.6	-5.1	-4.9

Northern Great Plains	-2.9	-2.3	-3.0	-4.2	-5.3	-6.5	-5.4	-5.0	-4.3	-4.4	-3.7	-4.7
Southern Great Plains	-0.6	-1.1	-1.0	-1.3	-2.5	-2.8	-2.7	-2.8	-1.7	-1.3	-1.8	-2.3
Great Plains and North	-2.2	-2.2	-2.3	-3.4	-5.1	-5.6	-5.0	-4.9	-3.7	-3.4	3.5	-4.0
<b>2.1.6.2. International net migration of foreign nationals per 1,000 population</b>	1.7	1.8	2.2	1.9	1.8	3.1	2.0	1.8	2.0	1.0	0.8	1.5
<i>By region</i>												
<b>Central Hungary</b>	4.5	4.5	4.3	4.1	3.9	6.1	4.0	3.8	3.7	2.1	1.9	4.0
Central Transdanubia	0.6	0.6	1.3	0.9	0.8	1.7	0.9	1.1	0.9	0.4	0.2	0.6
Western Transdanubia	0.7	0.7	2.3	1.4	1.4	2.2	1.8	2.0	1.9	1.6	0.9	1.2
Southern Transdanubia	0.7	0.6	1.8	0.8	0.5	2.3	1.3	-0.2	1.2	0.5	0.3	0.6
<b>Transdanubia</b>	0.7	0.6	1.8	1.0	0.9	2.1	1.3	1.0	1.3	0.8	0.5	0.8
Northern Hungary	0.4	0.5	0.6	0.6	0.5	0.7	0.3	0.1	0.5	0.2	0.2	0.2
Northern Great Plains	0.6	1.0	0.9	1.0	0.6	1.5	1.2	1.0	1.2	0.5	0.2	-0.04
Southern Great Plains	0.5	1.2	1.8	1.9	2.2	3.1	1.6	1.6	1.9	0.7	0.4	0.6
Great Plains and the North	0.5	0.9	1.1	1.2	1.1	1.8	1.1	0.9	1.2	0.5	0.3	0.2

Figure 1  
*Net migration (2003–2014)*

Source: HCSO

The joint effect of employment and education is also of considerable importance because they are capable of influencing *domestic migration of the population*. Consequently, it is appropriate to use the net migration indicator in this dimension. Regions can be distinguished on the basis of net migration and natural reproduction. Where both are positive, a region can be considered to be developing from a demographical point of view; where both are negative, the region is, demographically speaking, declining. Where natural reproduction is negative, but net migration is positive, the area is referred to as a recipient region; where natural reproduction is positive, but net migration is negative, it is known as an emitting area.

There are no contiguous depopulated areas; however, population density has started to rapidly decline in numerous sub-regions. This has chiefly affected big cities, primarily Budapest, whose migration balance is negative. Population density has considerably declined in industrial and mining areas, such as the Ózd, Dunaújváros and Oroszlány regions, and in particular in disadvantaged, peripheral areas, chiefly on the Southwest borders of the country.

Migration is the fastest changing element of demographic conditions. By the turn of the millennium previous urbanisation slackened its place. Almost every part of the country saw a natural population decline, which has continued in recent years. The former main issuing areas ceased to produce the population surplus that would counterbalance outward migration. Outward migration from all recipient regions and urban centres began in the period between 1996 and 2000 and the majority of sub-regions became recipient regions, and in 117 sub-regions natural population decline went hand in hand with a positive migration balance. Population replacement was accomplished by migration.

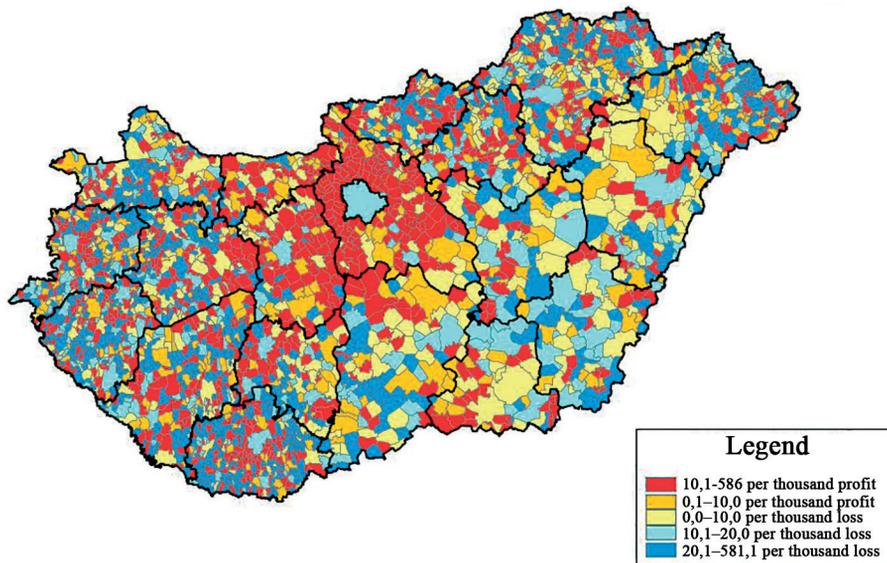


Figure 2  
Migration balance (1998–2002)

Source: HCSO

After 2000 outward migration slowed from Budapest to villages in the agglomeration and the areas along main roads. Outward migration from county municipalities also slowed down after 2000, and concurrently with this, inward migration to other towns and villages slowed down. The sub-urbanisation of Budapest and other country cities (Pécs, Debrecen, Székesfehérvár) increased.

The majority (two thirds) of outward migration involved people moving to another town within the same county; distributed half and half between towns and villages. The majority of people moving to a different county move to Budapest (with the exception of Tolna and Baranya counties, where in migration between the two is more intensive than to the capital city). Pest County is special in that it is the only county where the number of people moving to Budapest is larger than to the other counties. The largest proportion of people moving homes move to Budapest from the counties neighbouring Pest County, but many people move to the capital city from more remote underdeveloped counties such as Borsod-Abaúj-Zemplén and Szabolcs-Szatmár-Bereg.

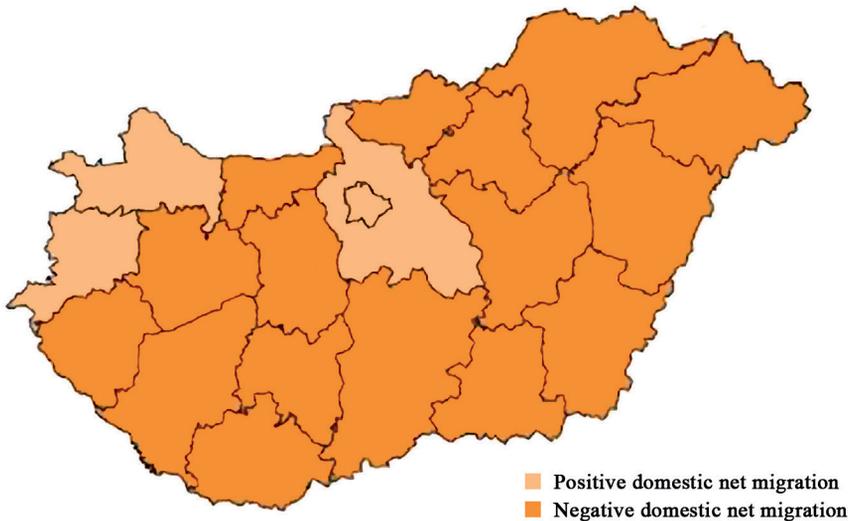


Figure 3  
*Migration balance in the counties of Hungary, 2013*

Source: HCSO

As regards international migration, as from 1985 immigration became common. In 2001 the number of immigrants was 19,462; net migration was 17,518 and the number of foreign nationals residing in Hungary also increased (110,000 individuals in 2001). Immigrants and foreigners with a residence permit chiefly came from Romania, Ukraine and Yugoslavia.

The rates of inward and outward migration to and from Hungary can be calculated from regularly collected data of people registering in and out. The number of inward and outward migrants is compared to the total population of a town or village, and is given in migrants per thousand. The difference of the ratio of inward and outward migration is the internal migration balance, which shows the increase or decrease of the population of the village or town, expressed in migrants per thousand, in a given year. If the number of individuals involved in the various ‘types’ of migration (permanent migration, temporary migration, temporary remigration and all domestic migration) is divided by the total population and extrapolate it to a thousand inhabitants, the result will be the net domestic migration rate. In its Demographical Annals, the HCSO publishes data similar to those presented in *Figure 4*. All migration ratios and migration differences can be calculated from these data (See, for example, the ratio of Győr-Moson-Sopron County’s internal migration balance per one thousand inhabitants).

Regional unit, population size category: GYŐR-MOSON-SOPRON COUNTY, 2013		(1) Popu- lation	(2) Domestic net mi- gration	Domestic net mi- gration per 1,000 population $((2)/(1))*1000$
Permanent	(a) immigration	448 312	9584	21.4
	(b) emigration		8339	18.6
Permanent net migration	(a) – (b)		1245	2.8
Temporary	(c) immigration		9835	21.9
	(d) emigration		6764	15.1
Reimmigration	(e) to permanent place of residence		3974	8.9
	(f) from temporary place of resi- dence		5261	11.7
Difference between temporary migration and reimmigration	[(c + e) – (d+f)]		1784	4.0
Total net migration	(a+c+e)-(b+d+f)		3029	6.8
In 2013, net migration for Győr-Moson-Sopron county was 3029 people in total, or 6.8 per cent. Vas County, Budapest and Pest County also had positive net migration.				

Figure 4  
Main domestic migration indicators

Source: HCSO

### 3.5. The individual in society dimension

While recent research has already seen a move to exploring the subjective opinion (preferences) of the individual and satisfaction with life, we believe that – in keeping with mainstream international trends and paradigm shifts, and Christian principles (virtue ethics) – broader research and the use of the results of research is necessary.

The main index of well-being in *international trends* was GDP, which chiefly focuses on material goods. There have been numerous efforts to move on from GDP, including the development of indicators that cover a broader meaning, such as the *Human Development Index* (HDI), which includes data about the educational and cultural level of the individual and health care; its results approach the concept of well-being. Mention should be made of the *Gross National Happiness* (GNH), which seeks to condense the level of national happiness into a single indicator, and there are also other happiness indices, which give an idea of the extent of well-being. The majority such indices based on measuring and aggregating the subjective happiness of individuals. The fundamental question is therefore whether happiness (well-being) can only be expressed in subjective terms, or whether it has an objective measure? Why is this important?

*Happiness* can be divided into *three types*:

1. *Hedonism*, where the ultimate goal is to achieve a pleasant state and joy (from Epicurus to Kahneman), albeit it is a subjective measurement of well-being.

2. *Eudaimonism*, which is an objective measurement of well-being.
  - Fulfilment, affection, development of values and virtues, that is dynamic movement towards a clear, intelligible ultimate goal that is outside the self.
  - The importance of human relations, activity for the public good.
  - Spiritual life. Achieving a pleasant state and joy is not the ultimate goal, but rather, it accompanies fulfilment (from Aristotle to Richard Ryan, Edward Deci and the representatives of the Self-Determination Theory.)
3. *Visio Beatifica*: which is an objective measurement of well-being.

The latter is the happiness of the believer, the purpose of which is relationship with God, the beatific vision (from Saint Mark to Pope Francis), whether the role of the intellect is crucial. ‘An active life in search of meaning is more powerfully connected to satisfaction with life than pleasant life.’ (Szondy, 2010: 15–29). According to Szondy’s research, hedonistic (subjective) happiness makes a person less happy than the happiness of Eudaimonism (conceived in an objective system) or the happiness of the beatific vision.

What is this objective system? We take a corner reference point, which we call ultimate goal, and system governed by this ultimate goal will provide framework and direction for the course of things. Good and bad will be interpreted in this context, consequently it will not come under subjective judgement, because it distinguishes between genuinely good and seemingly good, that are determined by a system outside of the self. Human nature comes into play, which has a tendency for good. Happiness (well-being) is conceived in this system, where ‘good’ is an (objective) goal that one seeks to achieve. Virtues as ‘skills to achieve good’ health individual in those efforts. That is the essence of virtue ethics, and the measuring well-being in this ethical system constitutes a *shift of paradigm*.

Crucially, of the components of well-being in virtue ethics morals (moral good – Saint Thomas of Aquinas) play the main role. The components well-being (based on classical Greek philosophy of antiquity) constitute a hierarchical order including the following:

1. material goods,
2. intellectual and moral goods.

In Aristotle: 1. bodily goods and 2. spiritual goods.

Intellectual and moral (spiritual) goods constitute the highest level and enjoy priority over the other components. The hierarchy is also supported by the law that material (bodily) goods are means to achieve moral and spiritual goods.

In this paradigm therefore well-being can be measured objectively and straightforwardly interpreted, due to the fact that the concept of good is clearly defined: the presence of moral goods, the behaviour determined by those goods, and the ‘good’ quality of the social, political and economic system.

Consequently, if well-being is examined at the *level of the individual*, we can establish the following:

- Subjectively measured well-being (hedonism) will remain two-dimensional even if it also measures moral goods, because in a subjective system morals are not an objective, but rather, a means to achieve subjective good and gain subjective advantages (cf. utilitarianism), which constitute the happiness of the individual; in this system

values too are material. (For example, the relationships of homo oeconomicus are instruments; they are motivated by achieving subjective goals.)

- Conversely, objectively measured well-being, however, is three-dimensional: values transcend material goods; they provide a framework and determine them; and their determinant – the ultimate goal – is not the subjective advantage of the individual. For example, in this context trust, self-fulfilment, growth and autonomy, etc. constitutes value themselves; the human relationships of homo reciprocans are based on respect for the other person for him or herself (human dignity). Reciprocity, which assumes mutual gratuitousness and generosity, is part of the individual's well-being, because the individual maintains relationships.

This concept of well-being includes the concept of so-called 'happiness paradox', meaning that the happiness of the individual will only grow along with material goods up to a certain point, after which point it will decrease. According to the research of Kasser (2005) materiality comes with psychic diseases or symptoms. Bruni (2007) believes that happiness will increase together with the growth of so-called 'relational goods', and that human relationships constitutes the majority of one's well-being.

The main indicators of happiness/well-being are the following:

- the classical Subjective Well-Being (SWB) index (Diener, 1985) is the most widespread measure of well-being: it is subjective and hedonic, measures subjective sense of well-being on a scale (satisfaction), therefore it associates well-being with the subjective sensation; and
- the World Happiness Report follows the principles of virtue ethics in questions of well-being: Aristotle, the teachings of the Catholic Church, Alasdair MacIntyre, Saint Thomas of Aquinas, etc. The recommended principle is humanity and mutuality.

According to virtue ethics the headline indicators are the following:

*1. Measures of global well-being:*

- PWB (Psychological Well-Being) (Ryff–Keyes, 1995);
- PWI (Personal Well-Being), which also measures religion and spirituality (Wills, 2009);
- SWLS (Satisfaction with Life Scale) (Diener, 1985; Deci–Ryan, 2008), which also measures self-fulfilment, growth, perfection and autonomy.

*2. Special eudaimonic measures:*

- MLM (Meaning of Life Measure) (Morgan–Farsides, 2009);
- PIL (Purpose in Life) (Crumbaugh–Maholik, 1964);
- MLQ (Meaning of Life Questionnaire) (Steger, 2006).

A meaningful life assumes purpose and dynamic effort. That is what the above measures seek to find out. According to Viktor Frankl, what makes life meaningful is concentrating on values beyond ourselves.

With respect to public well-being the following Christian (virtue-ethical) principles are crucial:

1. Starting point: well-being can theoretically be approached by means of two paradigms:
  - the utilitarian paradigm: hedonism and utilitarianism; and
  - the virtue-ethical paradigm, which is also the value system of Christianity.

The hedonic approach to well-being focuses on *satisfaction and contentment*, and happiness defined in that context; based on a sense of subjective well-being, it is measured on a scale of well-being with the following question: ‘*How happy do you feel? Rate it on a scale of 10.*’ (Cf. SWB index.) This way the content of happiness and satisfaction does not play a role in the intensity of well-being, since anything can contribute to level 10 satisfaction (e.g. a wellness holiday or the joy of creation). Measuring well-being in this case focuses on the state of satisfaction.
2. The measuring of well-being provides more accurate information about the quality of well-being if it is performed in the *virtue-ethical paradigm*.
3. The scope of the virtue-ethical paradigm is an *objective system*, where good and happiness have objective criteria rather than being determined by subjective feelings.
4. Virtue ethics have a non-metaphysical based version (Stanley Hauerwas, Philippa Foot), but we prefer to rely on *neo-Thomist virtue ethics based on the principles of ontology, metaphysics and finality* (Jacques Maritain, Étienne Gilson, Alasdair MacIntyre, Edmund Pellegrino, Hans Jonas, Charles Taylor and other communitarian ideas).
5. The *objective* criteria measuring well-being in virtue ethics are as follows:
  - the objective determination of good and bad is based on moral norms, the law of nature and the eternal law (derived from an external existent that embodies the beginning and the end);
  - human nature is goal-oriented, and ultimately pushes towards its final goal;
  - consequently, well-being is a dynamic, goal-oriented process rather than a condition;
  - it is characterised by ‘fulfilment’, that is growth and perfection of values;
  - fulfilment is based on principle of the hierarchical order of values;
  - the hierarchy of values is the following: the lowest level as the material world, material values, followed by vegetative and sensitive values, with intellectual and moral values at the top of the hierarchy. Aristotle and Saint Thomas of Aquinas emphasised that material goods are merely means in acquiring moral (intellectual) goods. (Aristotle speaks of the unity of body and soul: the body is the means of soul. Saint Thomas of Aquinas speaks of useful goods, which he understands to mean the material world, which are a means serving the creation and functioning of moral goods.) If we compare this with the utilitarian paradigm, the latter represents contrary ‘order’ in that material goods constitute goals (cf. the logic of consumption), and morals, if they exist, are the means to maximise advantages. (For example, a manager needs to be virtuous, because effective leadership increases the organisations profits expressed in money.)
6. *Virtues* themselves assume a crucial role in virtue ethics. Virtues pave the way to fulfilment, they are ‘skills’ in going good. Several systems of virtue exist, all of which, however, are based on the four cardinal virtues, which are prudence, justice, courage and temperance.

7. *At a social level, well-being – based on fulfilment and a hierarchy of values – aggregately leads to the achievement of ‘public good’.* The achievement of public good, as the ultimate goal of economic and social life, is none other than ‘fulfilment at both individual and social level.’ The state and political power needs to serve as a ‘catalyst’. Fulfilment begins at material level and proceeds to the level of material goods (cf. moral goods, spiritual and intellectual goods). The individual and social relevance of fulfilment are at the same level: neither comes before the other. (The priority of the community level is typical of communist principles, the priority of the individual of liberal ideas.)
8. Objective well-being in virtue ethics – understood to mean happiness – comes with the so-called ‘happiness paradox’ whereby happiness (the fulfilment of the individual) will only grow along with material goods up to a certain point, after which point it will decrease. Consequently, well-being in virtue ethics grows in direct proportion with the intensity of human relations. The other pillar of well-being consists of ‘relational goods’.
9. Well-being depends on human relationships; in virtue ethics the individual is no more than a *person*, who achieves fulfilment and self-realisation in his or her relationships. The individual is capable of devotion and selflessness. The individual will enter into a relationship for the sake of the other person and not for any possible advantages that might be derived from it. The relationship based on self-value is the ‘I and thou’ relationship (Martin Buber) where two people respect each other as equal partners (human dignity). The ‘I and thou’ relationship scheme is a feature of utilitarianism: it is a relationship where one is the means to achieve the objective interests of the other. This situation lacks the person, human dignity, and it is an instrumental relationship.
10. Finally, well-being can be associated with the concept of self-interest. Self-interest not only drives the economy, but also well-being. In the utilitarian paradigm self-interest is an effort to achieve subjective advantage (*subjectivist self-interest*), whose fulfilment brings well-being and happiness. In virtue ethics self-interest can be defined as follows: willing the well-being of the other person is in my own interest (*objectivist self-interest*). The individual existing and acting in the system virtue ethics therefore not only places him or herself in the centre, but also the other person. This results ‘win-win’ situations, and can lead to the accomplishment of social and *public well-being*, the common good. The *concept of social and public well-being* has objective characteristics; it involves a *hierarchy of values (vertical direction)* and is rooted in personalism. Human relationships are part of *public well-being (horizontal direction)*.

Clearly, therefore, well-being in virtue ethics is three-dimensional, while in the profit-centred, utilitarian approach, well-being identified with satisfaction can be said to be two-dimensional. The latter lacks an external, ultimate goal that goes beyond the individual, which might serve as the vertical axis of the third dimension. This promising, new approach is justified by value research conducted by international and Hungarian research centres. In recent decades, various disciplines, including sociology, economics, psychology and other health sciences, have shown a growing interest in value research. The International Soci-

ety for the Study of Quality of Life (ISSQOL) is a major organisation that brings together international value research.

The quality-of-life and value research of international organisations observe quality of life in individual countries, in relation to values and social capital. Such research projects include the World Value Survey, the Quality of American Life (in the USA), the Social Indicators of Wellbeing, the General Social Survey, as well as the Eurobarometer and the European Social Survey (ESS) in the European Union. Milton Rokeach, author of *The Nature of Human Values* (1973), has assumed a pioneering role in the development of value-research methodology. The value test published in his book has been the starting point for many researchers. In Hungary, the origins of value research dates back to the 1970s, and are linked with the name of Elemér Hankiss, László Füstös, Róbert Manchin, Károly Varga and Miklós Tomka. Rudolf Andorka conducting significant sociological value studies, as well as Mária Kopp and her colleagues at the Institute of Behavioural Sciences of Semmelweis University (Hungarostudies).

The psychological background underlying value studies has undergone changes in recent years. While in the past, the main focus was observation and analysis of objective demographic and health indices, from approximately the mid-1980s onwards the so-called positive psychological approach emerged (Martin Seligman, Mihály Csikszentmihályi, Ed Diener), which charts the strengths of the human psyche through the examination positive life qualities, rather than through symptoms and complaints. Consequently, the variables evidenced in value research are also chiefly out to measure the existence or lack of positive values, such as happiness, autonomy, life standards, trusts and human fulfilment.

Some economists, too, have been attracted by sociologically and psychologically inspired value research. This was due to the emergence problems caused by an economic paradigm that concentrated on maximising profits and economic growth (social differences, environmental problems, and the fact that they regarded the human personality from a one-sided perspective, as the consumer). Many scholars came to realise that the problems are best addressed if the individual is placed in the centre of economic life and development. Humanist economics and ecological economics do just that. Mention should be made of economists including Kahneman, Tversky, Easterlin and Hofstede, who give priority to values. The examination of welfare indices is now a staple part of economic literature, as is the concepts well-being, which includes the study of values.

#### 4. Conclusion

It can be concluded, on the basis of the evaluation of the technical and methodological experiences of the *2015 Good State and Governance Report*, that the approach and methodology of the first report is clearly *a good point of departure* for the 2016 report and the relevant research. The approach and methodology of the financial situation and social exclusion dimensions of the public welfare impact area clearly best satisfy – like the report of the previous year – the requirements of the new report.

The dimensions of health and social safety net, employment and education call for new development of content and methodology in an effort to meet the requirements of international integration and comprehensiveness of the indicators (the use of sub-indicators, among

other things), and to highlight specific focus areas. However, as regards the individual in society dimension, further widespread research will be necessary to include internationally used happiness indices at individual and social level, with a view to contributing to the research of good governance.

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# **Governmental capabilities in economic development: financial stability, economic innovation and competitiveness**

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## **1. Introduction**

The goal of the research group was to examine governmental capabilities in economic development, particularly in the area of economic innovation and competitiveness, assess the results and identify potential areas of improvement. The research related to the topic is diverse and typically relies on objective, statistically measured studies supported by so called soft data based on interviews. It is also a common practice to carry out international comparative analyses in these studies. Our research group analysed the results of international research. However, one of the typical features of international research, especially in the area of competitiveness is that it does not take into account the level of development of a given country. Therefore, if the aim is to catch up with economically and socially more developed countries, it is necessary to identify the areas and goals to be set and what state decisions are to accomplish these goals in the most efficient way. Because of this, the research group – relying on domestic and international research on the economic situation in Hungary and its development trends – identified areas for study which best reflect the results achieved in economic and social development, and the ones where decisions are necessary in the interest of future results. We paid special attention to examining the role of government innovation and the influence of the government on innovation, as this is the area where the results can improve long term competitiveness and enable the economy to adapt to the rapidly changing environment in a conscious and well-planned manner. The research groups also had to take into account the fact that although the time horizons of the two intensively investigated areas, competitiveness and financial stability, are different, they do have a mutual influence on each other. Today's level of financial stability reflects the current effects of previous economic, financial and social decisions. At the same time, the degree of financial stability greatly influences the range of resources that can be used to improve competitiveness continuously and sustainably; in other words, today's investments influence future changes in competitiveness, rather than changes which we see today.

On the other hand, when examining competitiveness, the research group primarily had to focus on economic elements, though competitiveness is also influenced by several

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institutional, legal and other non-economic factors. These were, however, investigated in other impact areas. Nevertheless, at the beginning of the research, the research group planned to conduct the studies in a more comprehensive framework: for the two main areas; financial stability and economic competitiveness it identified ten sub-areas, within that ten key indicators, sixty sub-indicators and twenty-six supporting indicators.

The ten sub-areas to be examined were the following:

- A.1. Diversification of the economy
- A.2. Energy dependence
- A.3. Financial dependence
- A.4. Knowledge dependence
- A.5. Regional differences in economic development
- B.1. Development of human capital
- B.2. Productivity
- B.3. Governmental efficiency (especially in the economic area, in state investments and in the operation of state-owned companies)
- B.4. Development-friendly environment
- B.5. Development of the infrastructure

With the help of the indicators selected for the ten areas the state of competitiveness and financial stability and their changing trends could have been captured more comprehensively, and one could have examined how financial stability and competitiveness – by considering their weak and strong points – could be improved in a sustainable way. In the course of the research, due to overlaps among the impact areas, time limitations and the availability of data, the number of sub-areas were then reduced to five in the area of financial stability and economic competitiveness, and the name changed to ‘dimension’. In addition, the number of indicators describing the dimensions was reduced to five. We therefore worked with a total of 25 indicators. We designated five main and twenty sub-indicators. The five dimensions were as follows:

- Financial stability (G.1.)
- State of economic diversification (G.2.)
- Investment and human resources (G.3.)
- Innovation (G.4.)
- Productivity and efficiency (G.5.)

The timelines of the indicators were provided by the Hungarian Central Statistical Office (HCSO). The data we received made our studies more difficult in two respects: firstly, we did not have a long enough timeline for every indicator to be able to draw reliable conclusions; secondly, we did not have up-to-date information for some of the indicators, so we were not able to analyse the situation following the latest data. Another problem was that some of the data required for economic analysis were completely missing at the HCSO, so we were not able to study these indicators. One such important indicator was total factor productivity, the analysis of which was extremely important in terms of improving competitiveness. Total factor productivity indicates how strong the role of high-level knowledge, advanced technology, managerial and organizational sophistication is in the created new value, that is, not just how fast but how smartly a nation works.

The quality of analysis could have been further improved by using composite indices in the area of financial stability and economic competitiveness as well, and making international comparisons, especially among the V4 countries. The results of our research would have been richer if we could have worked not only with statistical data but with soft data, such as questionnaires. One typical area covered by this is business environment, which has a significant influence on competitiveness. Factors such as the operational efficiency of the public institutional system, the strength of social capital, the level of bureaucracy and the level of trust could have been included in the study. As mentioned previously, the task of studying the efficiency of the institutional system and the level of bureaucracy, for example, had been assigned to other impact areas, and in the course of research we have not been able to work with data based on surveys. The weak points referred to above have also been pointed out by experts who provided their opinion on the research. We definitely need to make progress in these areas in future phases of the research. We aim to make progress in connection with the weak points listed previously in the further phases of the research. We find it especially important to study what state capabilities can be used to make the business environment more business-friendly and the innovation more stimulating. We also need to address the question of the role of the good state in economic development, economic innovation and improvement in competitiveness. In this context, we also need to consider that this role should clearly be different for a less developed country than for a more developed one. There is no chance for convergence without the state acting consciously on the matter. We will return to the proposals for further development in point 3.

## **2. Results achieved in the five dimensions, problems and proposals for further development**

### **2.1. G.1. Financial stability**

One of the basic points for this dimension is that good governance should be able to reduce the country's dependence on external funding. With this in mind, we defined the set of indicators to be examined in 2014, and then in 2015, in the second phase of the research we narrowed down the range of indicators to be included in the analysis by taking this into account.

In 2014, in the first phase of the Good State research – and in the publication concluding it, *2015 Good State and Governance Report* – A.3. was the sub-area for reducing financial dependence. This sub-area includes two parts: one of them is A.3.1. Safe and predictable financial environment, and the other one is A.3.2. Financial security of public finances. We chose these two areas because we were convinced that the Hungarian economy needed and continues to need external capital and external financial funding, including the public sector, but that our dependence on this had become so great over the years that it represented (and still continues to represent) an economic security risk. For this reason, we believe that one of the criteria of good governance in the sub-area of reducing financial dependence is that the government must protect the economy and its actors from economic fluctuations due to excessive external financial dependence.

With regard to a safe and predictable financial environment, we planned to investigate whether there are sufficient domestic resources available for the operation of the national economy and the improvement of competitiveness, as well as how dependent the national economy is on external funding and what risks this dependence entails. In this context, we collected or created the following key indicators and supporting indicators:

A.3.1. Key indicator: Safe and predictable financial environment:

- Sub-indicator A.3.1.1: Net lending/borrowing position in proportion of GDP (negative deviation of the balance of payments in proportion of GDP from 0% – expressed in percentage)
- Sub-indicator A.3.1.2.: Gross external debt (gross external debt of the national economy in proportion of GDP)
- Sub-indicator A.3.1.3.: Foreign currency reserves (negative deviation in the value of foreign currency reserves – expressed in percentage – compared with the country's foreign debts with maturity less than a year)
- Sub-indicator A.3.1.4.: Core inflation (deviation of core inflation – either in positive or in negative direction, expressed in percentage – from the targets set by monetary policy)
- Sub-area A.3.1.5.: Volatility of the exchange rate (12-month implied volatility of the exchange rate measured in percentage)

Supporting indicators:

- Investment rate in proportion of GDP
- Net foreign direct investment inflow

With regard to the financial security of public finances, we wanted to measure the financial stability of public finances and how the risks related to it are changing. In order to study this, we created the following key indicators and supporting indicators:

Key indicator A.3.2.: financial security of public finances:

- Sub-indicator A.3.2.1: Government sector's net financing position (negative deviation of the national economy's net financing capacity in proportion of GDP from 0% – expressed in percentage)
- Sub-indicator A.3.2.2.: Total gross debt (gross public debt in proportion of GDP)
- Sub-indicator A.3.2.3.: Interest payable by public finances (interest paid on public debt in proportion of GDP)

Supporting indicators:

- Government sector's gross financing needs
- Structure of public debt by currency denomination
- Structure of public debt by source
- Average maturity of public debt

The key indicators show that even at this phase of the research we tried to create indicators which could later be used for compiling a composite index. When the research

continued in 2015, after reducing the number of indicators and selecting the data as they became available, we created dimension G.1. Financial stability from sub-area A.3. Reducing financial dependence, on the basis of its two parts. At the same time, it was necessary for us to choose five indicators from the 14 that we published in our previous book to be used to measure the processes of both parts – the financial security of the national economy, and within it the financial security of the public sector – and for which we had sufficiently long-term datelines. After several discussions and further assessment, we eventually decided on analysing the following indicators:

*Key indicator: Net international investment position in proportion of GDP*

Sub-indicators:

- Gross external debt of the national economy in proportion of GDP
- Value of foreign currency reserves in proportion of foreign debt maturing within one year (%)
- Government sector's financing (net lending/borrowing) position in proportion of GDP
- Gross public debt in proportion of GDP

Obviously, several important and valuable indicators were omitted after reducing their number. When determining the indicators in dimension G.1. for financial stability, we relied on the technical documents of foreign and domestic organisations that investigate the financial security of the national economy. In doing so, we considered the regular reports of the International Monetary Fund, which comprehensively examine the financial vulnerability of national economies, as well as those of the Central Bank of Hungary (MNB), which constantly monitors the financial stability of the Hungarian economy. The IMF's 2015 report on Hungary can be found under the IMF Country Report No. 15/92, (IMF 2015) while that of the MNB's can be downloaded from the bank's website. We also used the country report of the OECD and that of the European Commission on our country (EC 2014; OECD 2015). In addition, we relied on several studies made by Hungarian analysts on the financial vulnerability of Hungary, examining and assessing the indicators they find significant and the reason why they consider them significant. We scrutinised, among others, several articles written by the staff of the Central Bank of Hungary (Csávás, 2015; Nagy–Palotai, 2014), the macro-analyst of Takarékbank (Suppan, 2010), and the researchers of the Hungarian Government Debt Management Agency. We also relied on the literature studying the general principles of international economics, particularly the widely-used *International Economics*, written by Krugman and Obstfeld (Krugman–Obstfeld, 2009).

*Potential for the further development of dimension G.1. Financial stability*

In the second phase of the research it would definitely be worth replacing the indicator for the government sector's net financing position in proportion of GDP with the indicator for the government sectors's gross financing needs in proportion of GDP. The latter measures not only the financing needs of the budget deficit and the acquisition of property, but also

the need for the inclusion of sources necessary for the public debt maturing in the given period (year). Because it always poses a risk to the state whether its maturing public debt will be renewed or not, and if there will be investors to buy the newly issued bonds. The higher is the need for raising capital, the higher is the risk and vulnerability. This was demonstrated during the 2008 world economic and financial crisis in the public finances of several countries. Moreover, this is an excellent indicator of the state's performance, because if economic policy can convince the domestic and foreign actors by its performance, then bonds will have a longer maturity, so the need for raising capital within the year – and along with this, the absolute value of the indicator – will decrease.

This is supported internationally by the fact that in addition to the International Monetary Fund, which comprehensively examines the financial vulnerability of national economies (IMF 2015), the international credit rating agencies also use this index. It is seen as an important index by domestic experts as well, since one of the staff members of the Government Debt Management Agency, Zsuzsanna Mosolygó (Mosolygó, 2014) also uses this index to show why Hungary's financial vulnerability is greater than that of the neighbouring countries. Our research group did not work with this in the earlier phase of the research (although its use had been raised at the beginning), as this indicator could not meet the requirement for data available on a longer timeline at the HCSO.

Another proposal to be mentioned in connection with the dimension is that (since it will not be possible to increase the number of indicators for the dimension but they can be rearranged) the sub-indicator proposed earlier for measuring the volatility of the exchange rate should be readopted among the indicators. A stable exchange rate can support the financial security of the national economy and the improvement of its competitiveness for several reasons. Firstly, the foreign currency debt does not represent a serious risk with a stable exchange rate. Secondly, it helps to achieve price stability (which reduces the costs of companies and the state), since a currency losing its value suddenly may cause inflationary pressures. Thirdly, a stable exchange rate supports the improvement of the competitiveness of domestic companies, since the costs of eliminating the negative effects caused by a change in the exchange rate are lower (such as derivative and options transactions).

## **2.2. Dimension G.2.: Economic diversity**

The diversification of the economy and the innovation content of the economic structure have an influence on financial security, the sustainability of growth and the extent to which the economy is exposed to crises. In terms of content, it measures how colourful and diverse the economy is, and what activities are being pursued in enterprises of various sizes and ownership structures. It is especially important to see how much of the entire value chain is present in a particular economy. The broader the value chains that characterise the economy, the less vulnerable the economy is. Company groups and clusters encompassing a wide range of activities make a significant contribution to economic diversification. According to all credible domestic and international research, diversification of the Hungarian economy is extremely low. In this respect, we are ranked

as 51<sup>th</sup> on the list of 61 countries studied by the International Institute for Management Development (IMD) (IMD, 2016).

The research conducted by the World Economic Forum (WEF) on 144 countries studies with two sub-areas of economic diversification; the comprehensiveness of the value chain and the development of the clusters. In the former, Hungary is in the 100<sup>th</sup> place, and in the latter one 91<sup>st</sup> (WEF, 2014). In comparison, Austria is 4<sup>th</sup> and 16<sup>th</sup>, and the Czech Republic is 27<sup>th</sup> and 47<sup>th</sup>, respectively, on the lists for these two indicators. This represents a risk of both dependence and lack of competitiveness. This is why we considered it to be important to study each of the components of diversification and any changes in them. In the first phase of the research, economic diversification, area A.1. was studied using the following indicators:

- Key indicator A.1.1.: Increasing the role of technology- and knowledge-intensive branches. Along with the sub-indicators, the key indicator is used to provide a picture of the structure of the economy with respect to the ratio of old and new, so called high-tech activities.
- Sub-indicator A.1.1.1.: Increasing the role of technology- and knowledge-intensive segments in employment. Added value created by technology- and knowledge-intensive segments relative to GDP.
- Sub-indicator A.1.1.2.: The role of technology- and knowledge-intensive segments in employment. Number of people employed in technology- and knowledge-intensive segments relative to the total number of people employed.
- Sub-indicator A.1.1.3.: The role of technology- and knowledge-intensive segments in export. The value of exports in technology- and knowledge-intensive segments compared to total exports' value.
- Key indicator A.1.2.: Diversification by size and ownership. It measures the structure of the economy by the size and ownership of companies.
- Sub-indicator A.1.2.1.: The role of the SME sector in production. The production value of the SME sector relative to GDP's value.
- Sub-indicator A.1.2.2.: The role of the SME sector in export. The value of exports produced by the SME sector compared to total exports' value.
- Sub-indicator A.1.2.3.: The role of domestic economic actors in production. Added value produced by domestic economic actors relative to total added value.
- Sub-indicator A.1.2.4.: The role of domestic economic actors in export. The value of exports produced by domestic economic actors compared to total exports' value.
- Sub-indicator A.1.2.5.: The income of domestic economic actors relative to their economic performance. The value of GNI relative to the value of GDP.

*Supporting indicator: Technology and knowledge intensive SMEs.*

We used these indicators to assess the structure of economic activity in accordance with company size and ownership. The total of nine indicators of the sub-area were replaced in the second phase of the research by Dimension G.2 Economic diversification, with one key and four sub-indicators, including the following:

*Key indicator: Share of gross added value created by technology and knowledge intensive industries (%)*

Sub-indicators:

- Share of technology- and knowledge-intensive sectors together in employment (%)
- Share of the SME sector in gross added value (%)
- Share of the SME sector in export (%)
- Value of GNI in the percentage of GDP (%)

These five indicators can measure the diversification of the economy only in part. The key indicator continues to be significant, since it measures the potential for creating greater added value and the length of the value chain. The first sub-indicator is also useful because it provides a picture of the utilisation of domestic knowledge capital and the availability of knowledge-based jobs. The share of the SME sector in gross added value and export can measure diversification, especially from the point of view of company size, and helps assess how dependent the economy is on foreign companies, since the majority of the SMEs have Hungarian ownership. The ratio of GNI to GDP also measures diversification according to ownership but it provides information primarily on the place where new value is created, since it differentiates between new value produced by any company in the domestic sector and new value created by national companies anywhere, and compares the two.

We could get an even better picture of the level of diversification by calculating the entropy index by Smith and Gibson (1988), which studies the distribution of economic activities and the employment data within the economy. However, this indicator also has weak points. For example, it is not sensitive to where the activities in the economy are located on the value chain, that is, what added value they can create. One simpler method for the measurement of diversification is to measure the contribution of all the economic sectors operating in the economy in terms of GDP and the distribution of employees in these sectors. The relevant timeline data is now available at the HCSO.

By calculating these indicators for regions and/or counties, we could also analyse regional diversification. We continue to consider the measurement of economic diversification as important because, among other things, one of the significant criteria of sustainable economic growth, as has been pointed out by Booz et al. (2008), is a more diversified, colourful economy supported by various elements, in which there are sectors that can sustain economic growth even in times of crisis. This is emphasised by the studies made by the OECD (2015), the UN (2011) and the EU (2014).

### **2.3. G.3. Investment and human capital**

In 2014, in the book concluding the first phase of the Good State research, *2015 Good State and Governance Report* (Kaiser–Kis, 2014: p. 94), we designated five sub-areas to be examined in the area of increasing competitiveness:

- Development of human capital (B.1.)
- Improvement of economic productivity (B.2.)

- Improvement of the government's efficiency (B.3.)
- Creating a development-friendly business environment (B.4.)
- Infrastructure development (B.5.)

In the next phase of the research, taking into account the division of labour among the research teams and the availability of data, this classification was changed and this special area appeared as dimension G.3. Investment and human capital in the 2015 *Good State and Governance Report* with one key and four sub-indicators, which were the following:

*Key indicator G.3.1.: Gross fixed capital formation as a percentage of GDP (%)*

Sub-indicators:

- Sub-indicator G.3.2.: Proportion of employees classified in NACE's employee categories 1, 2 and 3 as a ratio of all employees (%)
- Sub-indicator G.3.3.: Annual government expenditure on education as a percentage of GDP (%)
- Sub-indicator G.3.4.: Natural decrease in population (per 1,000 inhabitants)
- Sub-indicator G.3.5.: Number of patent applications made on national level (pcs)

For the reasons mentioned in the introduction, we omitted several indicators that we originally considered important from this area in the second phase of the research, but the research team tried to keep the indicators that could present the area as efficiently as possible. As we explained in dimension G.3. investment and human capital of the *Good State and Governance Report*, all the countries strive for competitive operation that can improve the standard of living and the quality of life. The state can create the economic and social environment in which it can utilise the available resources (capital, workforce, knowledge, technology, etc.) and create the necessary new resources (e.g. expertise) as efficiently as possible by setting proper objectives and ensuring effective operation. The government can help provide leverage and continuously maintain and rebuild a competitive advantage. It is therefore important how its economic policy addresses the issue of competitiveness (Csáki, 2011). According to the OECD, economic growth can be explained by the quantity of utilised resources (especially human capital and capital), the technology that is introduced and the efficiency of the utilisation of resources (Pellényi, 2005). Porter (1993) believes that a national economy inherits only a few factors of production, meaning that the factors developed by investments play an important role. Today the greatest competitive advantage is represented by "developed" factors of production such as highly qualified experts, as well as training and research institutions, since they can make the biggest contribution to a country's innovative activities and through this, to the improvement of economic competitiveness. Graham notes that the economies that want to compete only with material resources may encounter serious difficulties in the long term (Szentés, 2005). This is why we focused on examining investment in human capital (improvement of quality) and the changes in size of human capital (decrease).

When measuring the indicators of dimension G.3. investment and human capital in the 2015 *Good State and Governance Report*, with one exception, the data was only

available up to 2012–2013, which made it difficult to provide a comprehensive view and future-oriented analysis of this area. At the same time, the available data was sufficient for drawing conclusions and deriving trends. Gross fixed capital formation as a percentage of GDP designated as a key indicator was 19.9% in Hungary in 2013. After the 2015 *Good State and Governance Report*, the most recent Eurostat 2014 database recorded a higher gross fixed capital accumulation as a percentage of GDP close to 22% (Eurostat, 2015). In an international comparison, this data set shows that Hungary exceeds the EU average of 19.3%, listing the country at 9<sup>th</sup> place among the 28 member states, though it is behind countries like the Czech Republic and Romania. Naturally, it is important to note here that the starting position must also be born in mind. At the same time, it is noteworthy that the countries that are trailing Hungary in the ranking include Germany, Finland and Denmark, which show better results in competitiveness. In other words, gross fixed capital formation as a percentage of GDP cannot be directly related to competitiveness. The subjects of these investments are also significant. On the other hand, as shown in the literature, investment in human capital is more closely correlated with changes in competitiveness, although with some temporal displacement. This has been proven by several decades of research carried out by Ferenc Jánossy and Angus Medison (Tarján, 2000).

If people cannot work in jobs that fit their expertise, it can hamper competitiveness in the long term. This means that a particular country cannot utilise its resources efficiently. This is why our research team attached great importance to studying the proportion of employees classed in ISCO-08 employee categories one, two and three as a ratio of all employees (%). The aggregate ratio of these three classes has grown constantly since the 2000s, and was 37.23% in 2013, still showing a steady increase compared to the previous years. However, we did have some problems with this indicator: in the course of the analysis we were not sure if it was correctly measuring the proportion of employees working in truly knowledge-based jobs; that is, if it was actually measuring the ratio of those who had, for example, engineering qualifications but were not working as engineers, meaning their expertise was not utilised. In our research we also found that the expenditure on education had declined in previous years. In 2012, the government's annual expenditure on education in proportion of GDP was 4.08%, which is lower than the EU average of 4.93 that are shown in the 2012 Eurostat data (Eurostat, 2012). Following the 2015 *Good State and Governance Report*, the data for 2013 were also published showing a further decline to 3.93% but data for 2014, showed an increase to 5.2%. At the same time, in addition to purely statistical data, it is also important to examine the background to this decrease in expenditure (a decline in the number of people participating in education, the restructuring of education, an increase in the efficiency of education, etc.).

As we have demonstrated previously, the quality and quantity of human capital is indispensable for a country to operate competitively. Its quality can be influenced by the state's objectives and programs for education and training, while its quantity can be influenced by preventing a natural decrease in the population and promoting natural population increase. In 2014, Hungary was characterised by a natural decrease in population, which was also true for another 11 countries of the 28 EU member states.

Finally, the number of patent applications submitted on national level is one kind of output indicator of research and development activity and was accordingly considered to be an important indicator. The way in which a government supports the innovative activity

of a country is represented by the number of patent applications submitted at the national level. The results published in the *Good State and Governance Report* show a decline in the number of patents. According to another database published by Eurostat, in 2012, Hungary was 16<sup>th</sup> among the 28 member states of the European Union in terms of the number of application per one million people (Eurostat, 2012).

When defining the indicators for dimension G.3. investment and human capital, we took into account the reports and positions of international and domestic organisations and experts in addition to the general principles of economics. In our analyses we relied on technical documents such as the WEF (2014) Competitiveness Report, the IMD surveys (IMD, 2014, 2015), the World Bank Institute's analysis on growth and competitiveness (WBI, 2012), as well as the joint study of the Economic Intelligence Unit (EIU) and the Business Software Alliance (BSA). In addition, we also analysed the competitiveness report of the European Commission (Re-industrialising Europe, 2014) (EC, 2014). Beyond the international analysis, we also looked into the domestic literature and the current objectives of the government for competitiveness.

After reviewing dimension G.3. investment and human capital in the *Good State and Governance Report*, we can establish on the whole that we have reached important findings and conclusions on the basis of analysing the one key indicator and the four sub-indicators selected by the research team. However, due to the weak points mentioned before, we believe that the system of indicators for this dimension needs to be further developed, to which we will return in some details in points 2.4. and 3.

## 2.4. Dimension G.4. Innovation

Innovation has a significant influence on the establishment of the social and economic structure, and is related to competitiveness and economic diversification in various ways. We wanted to explore and measure these connection points in our research. We developed the set of indicators on this basis by ensuring that the selected indicators provide a comprehensive picture of the area under analysis. In the first phase of the research we tried to connect and measure the indicators of social and economic structure built on the development of human capital. In our book *Good State and Governance Report* we used sub-areas A.4.1. R&D and innovation and A.4.2. Education to describe the area for decreasing knowledge dependence.

Sub-area A.4.: we measured key indicator A.4.1. R&D and innovation by using the following sub-indicators in the topic of decreasing knowledge dependence:

- Sub-indicator A.4.1.1.: State R&D costs
- Sub-indicator A.4.1.2.: Share of people working in R&D
- Sub-indicator A.4.1.3.: Innovation partnerships

We described key indicator A.4.2. Education with the help of six sub-indicators and eight supporting indicators. These are:

- Sub-indicator A.4.2.1.: Share of graduates
- Sub-indicator A.4.2.2.: Share of doctorate holders

- Sub-indicator A.4.2.3.: Share of adult participants in education and training aged 25-64
- Sub-indicator A.4.2.4.: Expenditure on education
- Sub-indicator A.4.2.5.: Secondary schools also providing training in economics
- Sub-indicator A.4.2.6.: Share of sciences and technology in higher education

The eight supporting indicators were the following:

- Share of companies supporting training
- Number of R&D units per capita
- Number of granted patents
- R&D costs of companies
- Share of innovative enterprises
- Number of students participating in doctoral programmes
- Number of doctoral degrees in sciences and technology
- Number of early leavers from education and training

Influenced by the proposals and comments received after the publication of our book, *Good State and Governance Report*, and by considering the available data, we modified the set of indicators used in our study. Due to these modifications, the sub-area was turned into a dimension, which we called dimension G.4. Innovation. After reconsidering the system of indicators, we continued to attach great importance to the role of the indicators in connection with R&D in innovation, so they were included among the modified indicators as well. We included the supporting indicator for the share of innovative enterprises in the five indicators under analysis, since it is one of the most important indicators for innovative performance.

In the second phase of the study we therefore worked with the following indicators:

*Key indicator: Total R&D expenditure as a percentage of GDP (%)*

Sub-indicators:

- R&D expenditure of enterprises as a percentage of GDP (%)
- Total R&D staff as a percentage of total labour force (%)
- Students graduated in technical fields and natural sciences (persons)
- Share of innovative enterprises (%)

The number of students graduated in technical fields and natural sciences is extremely important as people qualified in these areas of expertise are especially needed for product and procedure innovations. When selecting the indicators, we strived to analyse the international literature as comprehensively as possible and also to take into account the domestic characteristics. We believe the following claims should be highlighted from the literary sources:

According to Garelli (2006), there is a fundamental difference between competitiveness and economic performance. Although the GDP will tell you how you have performed today, it does not take into account how well you are preparing the future. The author stresses that the most important elements of competitiveness include education, technology, research and science. These also have a crucial role in the perspective for innovation.

In Porter's interpretation (2005), competitiveness is defined by the productivity with which a nation utilizes its human, capital and natural resources. He adds that a country's standard of living is determined by the productivity of its economy, which is measured by the value of goods and services produced per unit of its resources. In his interpretation, nearly every resource can contribute to competitiveness, including schools, roads and financial markets. And innovation plays a key role in the utilisation of human capital.

According to the IMD's interpretation, "Competitiveness is a field of Economic knowledge, which analyses the facts and policies that shape the ability of a nation to create and maintain an environment that sustains more value creation for its enterprises and more prosperity for its people" (IMD, 2014: 502). From this it follows that innovation belongs to these key areas, since its role in the creation of higher value is undeniable.

The other institute which studies competitiveness, the World Economic Forum, also stresses the role of innovation, and studies it among the group of 12 indicators known as competitiveness pillars (WEF, 2015a). The Europe 2020 objectives also include making the R&D activity presented above more pronounced and dynamic in the national economy. By 2020, Hungary intends to increase its investments as a percentage of GDP to facilitate research and development and innovation to 1.8%. This target is 3% in the European Union as a whole.

We see the following possibilities for further development as far as dimension G.4. Innovation is concerned. When we determined the set of indicators, one of the important criteria was to include the input and the output conditions as well as the outcome indicators. We wish to note that the individual dimensions are not unrelated, since dimension G.3. Investment and human capital does include indicators that are related to innovative performance, such as the number of patents submitted on national level. As it has been mentioned in the previous point, the number of national patent applications is a form of output indicator of research and development activity. In the second phase of the research, this indicator was included in dimension G.3. Investment and human capital, as the initial condition was that a particular dimension could have one key indicator and four sub-indicators. In a later stage of the research we will be able to distribute the dimensions and indicators in a more structured manner. The analysis of these indicators continues to be important, but from a technical point of view they should belong to dimension G.4., so they should be relocated there.

There is a strong correlation between key indicator G.4.1. Total R&D expenditure as a percentage of GDP (%) and key indicator G.4.2. R&D expenditure of enterprises as a percentage of GDP (%), which shows that one indicator has an influence on the other. From this it follows that indicator G.4.2. has a greater weight in the set of indicators. Redundancy can be eliminated in several ways. One of them is to omit indicator G.4.2. from the set of indicators for analysis, since indicator G.4.1. already includes these data. The disadvantage of this would be, however, that we would not know the amount spent by companies on R&D, which is important because it can demonstrate, for example, the R&D activity that creates great value added at the companies, showing that research, one of the key elements of the value chain, is being pursued in Hungary. We therefore believe that it is better to separate R&D activities by the state and by the companies and use the two indicators separately. This makes it possible to assess the state's activity in supporting innovation separately.

## 2.5. Dimension G.5.: Productivity and efficiency

We selected the five indicators of the dimension from the 13 indicators determined for sub-area A.2. Reduction of energy dependence and sub-area B.2. Improvement of economic productivity, included in the ten sub-areas of the research launched in 2014, and we also chose new, more comprehensive indicators, as the information content was reduced due to the narrowing down of the range of areas. The original seven indicators (one key indicator, five sub-indicators and one supporting indicator) that measured the extent of energy dependence were the following:

### *Key indicator A.2.1.: Energy situation in the economy*

- Sub-indicator A.2.1.1.: Electricity price for industrial customer in proportion to regional prices
- Sub-indicator A.2.1.2.: Energy-intensiveness of the economy
- Sub-indicator A.2.1.3.: Energy diversification
- Sub-indicator A.1.2.4.: Energy import
- Sub-indicator A.2.1.5.: Diversification of energy import

### *Supporting indicator: Undisturbed energy supply*

These seven indicators were replaced by a single indicator reflecting the energy-intensiveness of the economy in the second phase of the research. We wanted to analyse the issue of energy dependence in more detail in the first phase of our research, because it is a crucial issue for the exposure of the economy, its dependence on foreign markets and, as a result, for its competitiveness. Currently, the energy industry, which accounts for 6.5% of the Hungarian GDP, typically relies on the import of resources. The routes of importing resources cannot be replaced, or they can be replaced only in a strategic time frame. The global increase in demand for resources is significant, at the same time, as the supply of traditional energy sources may become limited in the future. The indicators proposed originally can provide signals both for the current energy prices of the domestic economy and their changes over a period of time. The measurement of energy diversification previously proposed is important because it can be used to assess how we can switch to the use of ecologically sustainable energy sources in the long term. Energy import shows basic exposure, while the diversification of energy import should be examined on one hand as a price factor which can also reflect geopolitical risks.

In the second phase of the research, the indicator examining the energy-intensiveness of the economy can be used to draw conclusions for the structure of the domestic economy in terms of its energy needs, as well as for the efficiency of the utilisation of resources (the latter one plays a role in both corporate and household efficiency).

The energy-intensiveness of the economy and the reduction of its energy dependence constitute an objective for economic policy, which also appears among the domestic targets of the Europe 2020 strategy. At the same time, it can also be used as an assessment criterion to examine how economic restructuring driven by political decisions – the government's objective to ensure that the ratio of industrial performance increase in the total output of the economy and that the Hungarian economy become a production centre in Europe by re-industrialisation – influences the energy-intensiveness of the economy in the long term. Traditional industrial activities can, once necessary changes have been made, achieve the same

economic output typical of a service-based economy only by using more energy. However, energy efficiency is also an issue of competitiveness in industrial production.

The indicator showing energy-intensiveness in the economy that was examined in the second phase of the research can only reflect a particular segment of the complex set of criteria for energy policy issues: it shows a shift towards specific energy efficiency in regard to the entire economy.

When assessing *The Global Energy Architecture Performance Index* published annually by the World Economic Forum (WEF, 2015), one of the key factors was how the given energy policy contributed to economic growth and development, that is, to the well-being of the citizens and the operational efficiency of companies (WEF, 2015). The WEF index contains the energy data of 125 countries so that the current performance of national energy systems can be compared in order to help energy-related decision making. The WEF index focuses on three main areas: economic growth and development, environmental sustainability, and energy supply and energy security. The shift to a low carbon emission economy continued in 2014 globally. In general, the dependence on import has increased in the countries assessed and access to energy is a key problem for many countries. Hungary is ranked 18<sup>th</sup> among the 125 countries, beating Germany's performance on the basis of the factors assessed in the index. The WEF data is noteworthy but the ranking based on it should be used for drawing conclusion only with certain reservations. Germany probably lags behind Hungary only in the volume of nuclear energy and the carbon emission of power generation, but in the utilisation of renewable energy sources it far exceeds our country.

On the basis of the Eurostat data, the energy-intensiveness of the Hungarian economy was well above the EU average in 2012: while the EU28 average was 143.2, Hungary's figure was EUR 268.7 kgoe/ EUR 1000 (the index for the economy's energy-intensiveness: gross domestic energy use divided by the GDP [its unit of measure: oil equivalent in kg per 1000 euros]). Despite this high value, Hungary had the lowest energy-intensiveness among the V4 countries with the same economic conditions in the period under analysis.

In order to be able to provide the parameters that can be assessed on the economic side as feedback for the government's decisions, more targeted and more rapidly accessible statistical data would be needed in the later stages of the research than the data planned for the first phase. In view of the importance of the topic, the publication of a separate study should perhaps be considered, since a reduction in energy dependence generally reduces the exposure of the economy and its dependence on foreign markets. It is also important for environmental sustainability, as well as the sustainability of economic growth. Competitiveness is also crucially affected, as a knowledge-intensive economic structure with low energy and basic materials use is the direction proposed by experts studying the improvement of competitiveness.

The studies of productivity and efficiency in various areas of the economy and public administration represent an important area in this dimension. In the first phase of the research we plan to use six indicators for analysing the improvement of economic productivity (one key indicator, two sub-indicators and three supporting indicators). These were the following:

*Key indicator B.2.1.: Productivity in the entire economy*

- Sub-indicator B.2.1.1.: GDP per one hour worked
- Sub-indicator B.2.1.2.: Growth rate of GDP per one hour worked

Supporting indicators:

- General length of value chains
- Import share of companies' exports
- Total factor productivity

The many-sided analysis of productivity is important because any improvement in productivity is a source for an increase in competitiveness. In the second phase of the research, we analysed the following five indicators in dimension G.5. Productivity and efficiency:

*Key indicator: GDP per employee*

Sub-indicators:

- Ratio of value of exports to value of imports (%)
- Change in terms of trade in the percentage of the previous year
- Energy-intensiveness of the economy
- Participation in adult education (life-long learning) among those aged 25–64

It can be seen that several indicators which are important for competitiveness were omitted from the original set of indicators. One of these is multifactor productivity, which is widely used in current international literature. The reason for omitting this indicator was that the HCSO did not have data available for measurement. At the same time, it is worth noting that Eurostat, for example, examines the total factor productivity index typical of EU countries and in this respect, Hungary is not doing well. The EU country report also calls attention to this (European Commission 2015).

The total factor productivity index also measures the effect of the use of advanced technologies and the improvement in the knowledge and skills of the workforce on creating new value in addition to the number of people employed and the number of working hours. Another important indicator measuring the length of the value chains was also omitted. The longer the value chains are in the economic sectors of the country, the higher the added value that can be created, which also contributes to an increase in productivity. This indicator was also omitted as the HCSO did not have data for this indicator. The EU country reports mentioned before, just like the WEF competitiveness study quoted earlier, warn that the value chains are too short in our country; moreover, they became even shorter between 2006 and 2014, while they were extended in the Czech Republic and Poland. If data could be collected in connection with this in the future, the analysis of the length of the value chain should perhaps be included again among the topics to be analysed, as this area is apparently one of the weak points of our economy. On the other hand, any improvement in this area could have a significant impact on the increase in competitiveness as well. If the necessary data cannot be collected, this topic could be studied with the help of qualitative methods. We will return to this possibility in point three.

In the first phase of the research, we planned to investigate the factors that influence the economic efficiency of the operation of the state. We defined two key indicators and four sub-indicators for sub-area B.3. Improvement of the state's efficiency. These were the following:

*Key indicator B.3.1.: Operational efficiency of government bodies*

- Sub-indicator B.3.1.1.: Harmony between government objectives and accomplishment in terms of content

- Sub-indicator B.3.1.2.: Planned and actual implementation costs of state investments
- Sub-indicator B.3.2.: Operational efficiency of the state corporate sector
- Sub-indicator B.3.2.1.: Extent of support for state-owned companies
- Sub-indicator B.3.2.2.: Share of state-owned companies in the budget

All the planned indicators would have measured the role taken by the state in the economy and the efficiency in the utilisation of public expenditure. This sub-area was omitted in the second phase of the research due to the lack of data. It would be worth addressing this issue again in a later stage of the research and studying the development of the proposed indicators – in the form of a case study – in the case of particular investments and state-owned companies.

From the indicators used in the second phase of the research, the key indicator for dimension G.5. should be kept: GDP per employee, which is a traditional productivity indicator. The sub-indicator measuring the ratio of export and import value is also useful because it sheds light on how much of our import is generated by export. This can also help to assess the length of the value chain.

The sub-indicator for the change in terms of trade can provide valuable information on whether a country has any advantage in terms of trade, and if it has, whether it can take advantage of it. In other words: how much import value is generated by a unit of export and how much export value should be created for a unit of import. This indicator is also important for competitiveness, since its value increases if a country can export products and services representing high knowledge and innovation content, and high added value and import products and services with a lower added value. Innovation can therefore generally improve the terms of trade if research and development is carried out in Hungary on value chains. Hungary's terms of trade deteriorated more often than it improved in the period between 2000 and 2014.

Finally, the indicator for participation in adult education should be transferred to dimension G.3. For investment and human capital, since lifelong learning means investing in human capital. In addition, an indicator should be introduced in dimension G.5., which measures the operational efficiency of the state and/or multifactor productivity. If this is not possible, qualitative studies should be carried out in these areas.

### **3. Summary, conclusions and proposals**

On the basis of the suggestions outlined in point 2, we can see some justification for making some small changes in the set of indicators, as well as carrying out certain other important analyses in the future.

#### **3.1. The new indicator system**

Without changing the number of dimensions and the total number of indicators, we are planning to make the following changes in the system of indicators.

##### *G.1. Financial stability*

Key indicator: Financing capacity proportionate of GDP (%)

Sub-indicators:

1. Gross external debt of the national economy in proportion of GDP (%)
2. Value of foreign currency reserves relative to foreign debt maturing within one year (%)
3. Gross financing capacity of public finances in proportion of GDP (%)
4. Gross public debt in proportion of GDP (%)
5. Volatility of the exchange rate

#### *G.2. State of economic diversification*

Key indicator: Contribution of each economic sector to the production of GDP

Sub-indicators:

1. Contribution of each economic sector to employment
2. Share of the SME sector in gross added value
2. Share of each export market in total exports
4. Value of GNI in the percentage of GDP

#### *G.3. Investment and human capital*

Key indicator: Changes in the distribution of the population according to the level of education (%).

Sub-indicators:

1. Value of investment in machinery and technology in proportion of GDP
2. Annual government-sector expenditure on education as a proportion of GDP (%)
3. Natural decrease in population (per 1,000 inhabitants)
4. Ratio of employees participating in further trainings organised by companies annually compared to the total number of employees (%)

#### *G.4. Innovation*

Key indicator: Corporate expenditures on R&D in proportion of GDP (%).

Sub-indicators:

1. Corporate expenditures on R&D in proportion of GDP (%)
2. Ratio of employees working in R&D at enterprises as a proportion of all employees (%)
3. Ratio of innovative enterprises (%)
4. Number of patent applications made on national level (pcs)

#### *G.5. Productivity and efficiency*

Key indicator: GDP per employee (HUF)

Sub-indicators:

1. Ratio of value of exports to value of imports (%)
2. Change in terms of trade in the percentage of the previous year (%)
3. Energy-intensity of the economy

Here the number of indicators is short by one. The reason for this is that we increased the number of indicators by one for dimension G.1. Financial stability. Thus, the total number of indicators has not changed. Using the new system of indicators, we were able to make even

more accurate analyses with regard to the processes taking place in the given technical area and to the tendencies that had emerged. On the basis of these we will be able to make even more well-justified proposals for the improvement of governmental capabilities. It is important to lengthen the timelines for the remaining indicators in the later stages of the research and study the reasons underlying any possible changes in the tendencies. As for the new indicators, the data should be collected and the timelines should be analysed.

### 3.2. New ideas, new directions and raising previous proposals again

#### *New dimension*

We planned to investigate the regional differences in economic development in the first phase of the research (sub-area five, A.5.). This is justified because several domestic and international studies have shown that these differences are quite large in our country and there are significant differences in living standards and the quality of life alike. Because of the importance of the topic, we had to create a new dimension: G.6. Regional inequalities. In this dimension, we intend to measure the following indicators:

#### *G.6. Regional inequalities*

Key indicator: Data of activity rate relative to the national average

Sub-indicators:

1. Number of operating, dissolved and new enterprises relative to the population of the region
2. Regional data of average gross wages relative to the national average
3. Ratio of GDP per capita relative to the national average
4. Value of state and corporate R&D expenditures relative to the population
5. Proportion of knowledge- and technology intensive sectors in the region's economic activity

For the time being we use the concept of the region as an approximation. It can be decided in professional debates, depending on the availability of data, how deep it is worth digging into the areas of analysis. We should, however, certainly address the question as to what economic activity could be used to reduce regional inequalities and thereby maximally utilise the capabilities of the human capital available locally. Local regional capital analysis coupled with case studies could be used for this in order to see what governmental capabilities should be strengthened for the development of local regional capital.

#### *Analysis of important areas that cannot be analysed or are hard to analyse on a statistical basis*

There are some regions where it would be important to carry out further as well as new studies but this is not possible on the basis of objective, statistical data. We therefore propose carrying out analysis in the following topics with the help of qualitative methods – such as preparing case studies and research papers, benchmarking and questionnaires:

1. Length of the value chains
2. Multifactor productivity
3. Efficiency based on state input-output (comparison of expenditure and social/economic results)
4. Business environment with special regard to the reduction of bureaucracy and the encouragement for innovation

We propose to prepare a study in areas one, two and three based on international and domestic sources. For topic 4, a questionnaire or perhaps a focus group study could be the best solution. For topic 1, this would mean analysing the value chain in a few selected sectors and for topic 3, studying the input-outcome efficiency of the life cycle of a few concrete state investments, R&D or public procurement projects. Finally, for topic 4, it would be especially important to assess the business environment of the SME sector (extent of bureaucracy, access to competitions and public procurement possibilities, etc.).

There are two other important research topics that could be raised here. One of them is the study of the condition and level of development of clusters, since it has been proved that an economy with a large number of innovative clusters is also more competitive. According to international analysis, however, the Hungarian economy is not doing well in this respect. This topic could also be analysed by using a case study. Another topic that would deserve analysis could be the study of the expected effects of the government decision on the newest human capital development. It would be useful to analyse how free access to a second profession can further develop human capital and in what direction and what impact it will have on competitiveness in the future. This could be done on the basis of statistical analyses as well as by a sample polling method.

### *International comparisons*

International comparisons would be needed so as to analyse our results not only in relation to Hungary but also to the results of other countries. It would be especially important to analyse our performance against the V4 countries and point out the differences and explore the reasons underlying them. This could be done by calculating composite indicators and making comparisons on this basis. This is methodologically feasible only then when the composite indicators for other countries are available on the basis of that which we want to make the comparison or if we calculate them ourselves.

The other international comparative method is the case study analysis. For example, we could compare the most important economic and social indices of Hungary, Poland and the Czech Republic and analyse the possible reasons for differences. International analyses are obviously limited by the content and the timeline of available domestic (HCSO) and international (e.g. OECD, IMF, World Bank and Eurostat) data. Comprehensive, composite indices can be used relatively easily for comparing competitiveness but it is important to take into account how theoretical considerations – such as the definition of competitiveness by particular research centres and the indicators used by them. These could differ from one another, which may make objective comparison difficult. Nevertheless, we certainly need to make progress in the area of international comparisons.

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# **Prosperity in harmony with the environment, the dynamic equilibrium of nature and society: developing sustainability**

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## **1. Introduction**

When interpreting the proper functioning of the good state, one of the first questions to be answered is this: what is the main task of the government? Is it to ensure the best for the citizens of a given country, or is it to give people what they want? One of the drawbacks of democracy is that the will of the majority is crucial, even if they make a bad decision, thereby causing harm to themselves. Therefore, apart from identifying and assessing certain indicators, one of the most important tasks is to find a long-term strategy that can guarantee a high quality of life for the members of society, which can help them live their lives under more or less objective circumstances.

It is absurd that the criteria of well-being and the ability of citizens to live in harmony with nature and fulfil their true potential, in good health and security, have not been developed in the period of rapid progress we have recently seen. Although the decision makers of developed countries have taken steps by frequently referring to well-being as a goal to be achieved, it has rarely been possible to monitor how these steps could serve the accomplishment of these goals. At the same time, it is also important to bear in mind that the measurement of sustainability is an extremely complex task because “proper operation” of a constantly changing and extremely complex system should be monitored. It is not easy to select the right indicators: as sustainability is such a new area of inquiry, there is no uniform practice followed by everybody in regard to the key indicators. We used our indicators to answer the question as to how the concept of well-being included in the title can be accomplished under the circumstances provided by nature in 21<sup>st</sup>-century Hungary.

One of the most urgent current issues is climate change, a global crisis factor that has become the most threatening and the most serious in terms of its potential impact, influencing our everyday life even in the short term and potentially jeopardising our civilisation if things worsen. We have examined the most important risk factors such as rainfall,

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risk of flooding and drought and their impact on flora and fauna. The indicators used in the research are designed to present the factors that influence the quantitative indexes of climate change. How does Hungary respond to the challenges raised by climate change in adaptation and mitigation? How have the indicators changed in recent years and where are we standing globally?

Are we treating our resources with care? What are the critical resources that we should pay more attention to and which are the ones which are of strategic importance but are not yet exhausted? The areas under analysis (biocapacity, biodiversity, the state of the ecosystem, the size of protected areas) all inform us on how man intervenes in the life of a natural system. Some of our indicators allow us to draw conclusions on the conditions of nature (biocapacity), others provide direct information on the state of the ecosystem (number of bird species, agricultural or protected lands).

The amount of energy and water used for social processes and their future fate are especially important. Accordingly, we have designed a separate set of indicators to focus on the issue of energy and water. The primary energy use of a country and the energy consumption of households provide direct information on consumption and the structure of resources, but the productivity of resources is also important, since it measures the efficiency of the economy. As for water, public utility water consumption and a net water balance have been included among the indicators: they can assess water consumption habits and the impact of saving measures. On the other hand, a country's water balance shows how we manage our natural surface waters and rainfall.

Unfortunately, an imperfect economic system generates huge losses. These emissions of solid, liquid and gas-state materials can also demonstrate the degree of efficiency and potentially have a detrimental effect on nature as well as the human body. The large amounts of artificially produced materials that get into the natural cycle cause immeasurable damage. The most vulnerable resource is man itself. Many people still do not understand that the biggest loser in a catastrophe caused by rapid but entirely uneven economic development is mankind itself. What then, are the points where governance has a role to play and an opportunity to do something for collective and individual well-being?

The indexes of the good state have indicators in several impact areas in the area of sustainable development. This paper is designed to show why the indicators included in the Sustainability Impact Area in the *2015 Good State and Governance Report* were addressed in our study within a narrow framework. We present these indicators with the help of scholars who are experts in the given fields, and in addition to the analysis of the indicators and putting them into context, they also discuss what directions are desirable for further development.

In the current phase of the *Good State and Governance Report*, the goal is to identify the indicators that can stand up to scrutiny on an international level and provide the basis for such a comparison. The definition of priorities, which is obviously the task of decision makers rather than scholars, is even more important than the number or relevance of the indicators.

## 2. Climate change

The objective of the climate change dimension in the *Good State and Governance Report* is clear: the state should be able to achieve tangible results in the fight against climate change on the basis of the data provided in the report. In another context, we also need to indicate which areas should be focused on and what efforts and measures can offset the unfavourable consequences of this global process in the most effective manner.

In Hungary, the main problem caused by weather is represented by floods due to high precipitation, pipeline bursts caused by freezing in extremely cold weather and strong winds. According to a report published by the IPCC (UN Intergovernmental Panel on Climate Change), a Mediterranean climate may be forming in Hungary due to climate change, which may result in regular droughts in the southern part of the country. Taking an average of the past fifty years, Hungary has lost 10–15% of its rainfall. This means that the annual average rainfall has dropped from 720 mm to 640 mm. Due to its special geographical conditions, there is a high probability for floods and inland waters to occur in Hungary and we need to factor in this risk in the future as well. Also due to the special geographical conditions, there are over sixty rivers with different flow rates entering the territory of the country and only three of them (Danube, Tisza, and Dráva) leave the country. As a result, floods are the most frequent natural disasters in Hungary, which have caused especially severe damages several times in various parts of the country.

Apart from floods, climate change often results in drought and desertification. For the time being, Hungary – with the exception of its agriculture – is not significantly affected by a shortage of water, but there are some alarming signs. The first sign of imminent problems in the near future was when the level of groundwater sunk in the region between the rivers Danube and Tisza. Hungary is one of the most vulnerable countries in the world as far as freshwater resources are concerned. According to some forecasts, Hungary may become a semi-arid region by 2050, as 95% of our water comes from abroad, which means unprecedented dependence. In the four decades of the previous political system, 3.5 cubic km of water was removed by mining that destroyed the environment and only 50–60% of it was replaced through natural processes (National Climate Change Strategy, Ministry of Environmental Protection and Water Management, 2008). The increase in the average temperature has been extremely high in our country in the past few years. 2007 was the hottest year in Hungary in the past century, when the annual mean temperature was 1.7 °C higher than the national average in the period 1971–2000. As for precipitation, it was not an extraordinary year, since annual rainfall in the entire country was 108% of the long-term average. In addition to an increase in average temperature, Hungary is going to see a decrease in the average amount of yearly rainfall and a shift in the distribution of rainfall (more rain in the winter and less rain in the summer) as well as an increase in the frequency and intensity of extreme weather conditions. The most critical issue will be the fresh supply of rainfall and the situation of surface and underground water (their quality and quantity). At a global level, we should see an economic downturn that will be very different in its extent by region and a significant increase in migration from the regions that will gradually become less liveable (Halász–Földi, 2014).

The following significant changes should be expected in the natural flora and fauna of Hungary as a result of climate change:

- A shift in the boundaries of vegetation characteristic of a particular zone;
- Reorganisation of plant communities and food chains, a decline in the species of the natural flora and fauna, especially in isolated habitats;
- Long-term decline in biological diversity;
- Spread of invasive species, appearance of new invasive species (such as harmful insects and weeds);
- Habitats becoming drier (e.g. water habitats disappearing, sandy areas becoming a desert);
- Damage to functions of the ecosystem;
- Soil drying out and damage to the biological processes taking place in it;
- More frequent fires affecting vegetation (National Climate Change Strategy 2008–2025, Ministry of Environmental Protection and Water Management, 2008).

If the *Good State and Governance Reports* begin to show some trends after a few years, they should reflect the temporal changes in the state's performance as well as the points where measures should be taken to improve these indicators. Therefore, it is important to point out that climate change can no longer be regarded as a process emerging in its initial phase, since its effects and consequences are unquestionably present in our daily life. On the basis of the findings included in the IPCC reports, countermeasures should be taken in two key areas: mitigation (decreasing, mitigating or avoiding the consequences) and adaptation. The indicators collected in the climate change dimension of the 2015 report perfectly reflect the number of government measures taken so far to mitigate the effects as well as their efficiency. Greenhouse gas emission (GHG emission) used as a key indicator is unquestionably the best tool for characterising the extent of anthropogenic effects. The efficiency of Hungary's adaptation efforts should also be represented in the same manner. The uniform definition of the effects arising as a result of climate change has been introduced in the domestic and international literature as "climate indicators" (Földi–Halász, 2009). Obviously, some of these parameters cannot be applied to our conditions, but we can easily find indicators that can be used for Hungary.

Primary climate indicators (also called meteorological indicators):

- air
- surface water temperature of seas
- rainfall
- speed and direction of wind
- frequency and strength of storms

Secondary climate indicators:

- environmental indicators
- ecological indicators
- healthcare indicators
- socio-economic indicators

It is obvious that the term "indicator" is used in a broader sense and slightly differently in the report, but we should definitely be familiar with the classical interpretation of "climate

indicators”. Note that the group of secondary climate indicators includes sub-areas that largely overlap the other dimensions of the Sustainability Impact Area in the report. This also supports the view that it is sufficient to refer to those indicators when assessing the quality of each adaptation task.

The 2015 report discussed climate change as one of the crucial dimensions of the Sustainability Impact Area. After the adoption of the report, it was suggested that the system of mitigation and adaptation tasks could be demonstrated in a more balanced way by replacing certain sub-indicators. As a result, we managed to find two more representative indicators to replace the sub-indicators for GHG emission in transportation and the share of renewable energy sources in total energy use.

The number of hot and cold days was introduced as a new indicator compared to last year. It is mainly used to raise awareness, and the increase in the figures of the indicator reflect how the consequences of climate change have become stronger. Since extreme weather conditions place an extra physiological burden on the people, any further intensification entails a direct risk for the people’s lives and health. Statistical data demonstrates, for example, that on extremely hot days the number of cases requiring medical treatment significantly increases; moreover, these periods unfortunately show an increase in mortality. Children, elderly people and patients suffering from cardiovascular and neurological diseases are exposed to a higher risk. In order to mitigate the consequences, a complex approach is needed, ranging from exploration of the climate sensitivity of the people through providing information for and monitoring all those affected, to developing prevention programs aimed at improving resistance. The expenditures spent on adaptation and their effect should be examined in the response provided by the state.

The other newly introduced sub-indicator is the absorption of carbon by forests. As it is clear that the key reason for climate change is the increase in CO<sub>2</sub> emission caused by human use, it is also obvious that we can do two things to prevent this, both of which are equally important. Firstly, we should examine the possibilities of reducing CO<sub>2</sub> emission in every area and work out programs that can achieve it; secondly, we should try to improve the absorption of CO<sub>2</sub> in the atmosphere, that is, the “extraction” of CO<sub>2</sub>. The most efficient and natural tools for this are green plants, since they create their own materials from the CO<sub>2</sub> in the air through photosynthesis and produce valuable biomass.

Since the intensity of CO<sub>2</sub> absorption by plants depends on how densely a particular area is covered by vegetation, the most efficient solution is clearly provided by forests. Therefore, it is worth examining the share of woodland or the degree of forestation in Hungary, but for every type of data, the goal is to determine the size of CO<sub>2</sub> absorption potential in the woodlands in Hungary. It should also be examined how this is related to total GHG emissions.

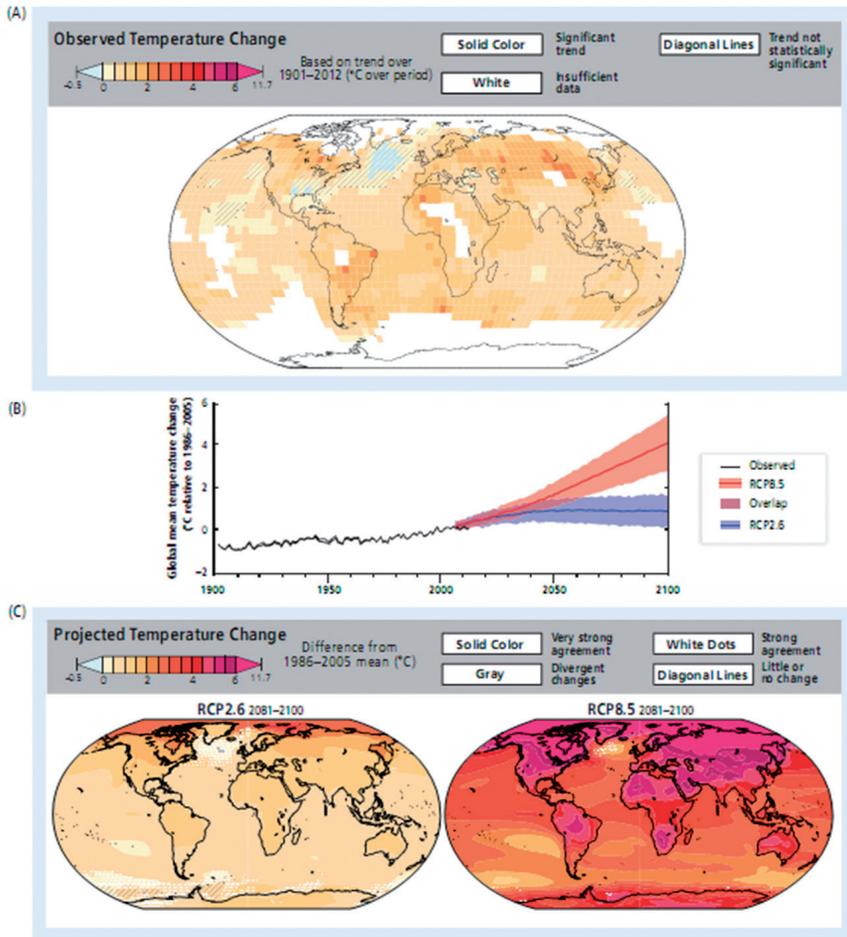


Figure 1

*Example for the joint use of evaluated meteorological datasets and climate models*

*Source: IPCC 5 Report*

Once this has been achieved, the mitigation and adaptation sub-areas could be defined in a somewhat more balanced manner. Since the problem is rather complex, the efficiency of the countermeasures assigned to fighting the constantly changing challenges should be investigated, which means that the relationship between the different datasets can be even more complex.

One of the important indicators for the measures taken to reduce carbon emissions related to climate change is the carbon intensity indicator, which reflects how much greenhouse gas emission is produced by a given unit of added value. Under the 2015 climate

agreement in Paris, every participating country had to determine their own national contribution to the solution of problems<sup>4</sup>. Some of the countries – such as China and India – have earmarked the reduction of carbon intensity in the economy (production and consumption) for the next few decades. On the one hand, this is a significant step forward in the attitude of states that have become significant GHG emission countries from “developing” countries, since previously they were not willing to implement any kind of self-control; on the other hand, if the reduction of carbon intensity is not coupled with a decrease in the absolute amount of greenhouse gas emission as a goal, a rebounding effect will take place and emissions will continue to grow, even though not at the same pace as previously. For example, the carbon intensity of the US economy decreased by 17% between 1990 and 2000, while its total GHG emissions increased by 14% (Fischlowitz–Roberts, 2001, “Carbon Emissions Climbing”, Earth Policy Institute). Carbon intensity has also decreased in China in the past few decades (see *Figure 2*), but GHG emissions have increased (see *Figure 3*). So, the two indicators should be examined and assessed together.

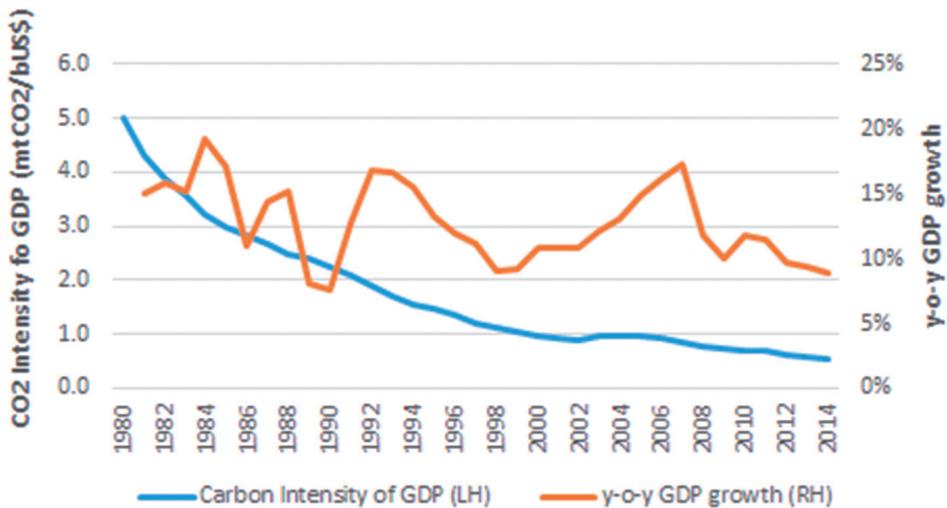


Figure 2

*Changes in carbon intensity in China.*

Source: <https://climatetrader.wordpress.com/2015/10/02/if-china-is-growing-at-4-or-less-then-their-co2-emissions-may-have-already-peaked>. Accessed: 12 September 2016

<sup>4</sup> Available at: [www4.unfccc.int/submissions/inde/Submission%20Pages/submissions.aspx](http://www4.unfccc.int/submissions/inde/Submission%20Pages/submissions.aspx). Accessed: 12 September 2016



This phenomenon has repeated itself every year since the beginning of the 1970s. We have been consuming some of our natural capital over the yield generated in a given year for over forty years at a global level. If our bank account were at stake, we would definitely not be able to continue like this in the long term. In addition to biocapacity per capita interpreted globally, we need to mention local biocapacity as well. Neither natural capital, nor its yield is evenly distributed globally. The difference among individual countries may be more than twentyfold.

One of the components of biocapacity is biomass yield, while the other part is given by the fact whether the ecosystem is able to eliminate the effect of human emissions. For the purpose of sustainability, it is desirable to a) reduce the use of biomass, b) make natural materials cycles fully effective in as many areas as possible, and c) make economic utilisation an intermediate rather than a final stage in biomass cycles. The use of natural systems as sources as well as consumers of raw materials have caused irreversible damages in the past fifty years (Millennium Ecosystem Assessment, 2005). In addition, the increase in population has upset the flow of natural materials on the Earth, since the materials turnover of humankind can be compared in terms of its mass with natural materials cycles.

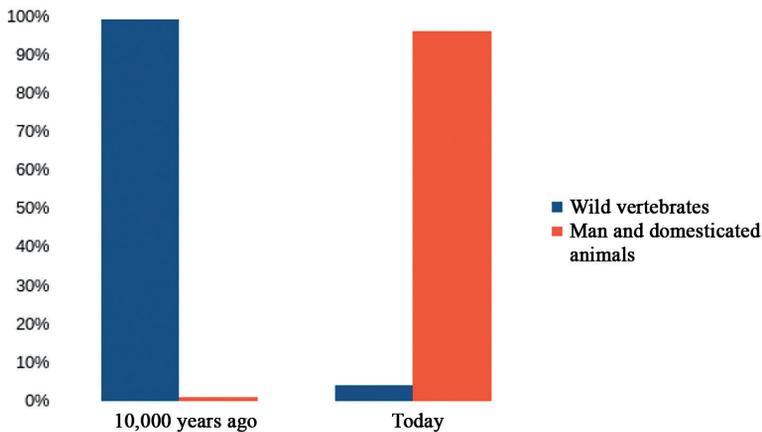


Figure 4

*Biomass distribution of vertebrates living in the world between man and domesticated animals versus wild animals (%)*

Source: <http://peakoilbarrel.com/wp-content/uploads/2014/05/Vertebrate-Biomass-3.png>.  
Accessed: 12 September 2016

Most biomass products are generated in agricultural plant production. The conclusion of the section written on biomass production is that the ratio of areas should be increased where the materials cycle is complete and a fresh supply of nutrients is provided by organic manure. In areas where ecological farming is conducted, the materials cycle is nearly complete with micro elements and macro elements approximating an equilibrium cycle. Therefore, these areas are not characterised by an exhaustion of soil, shortage of elements and acidification

(Márai, 2013). Organic manuring can replace the loss of organic materials due to machine-driven cultivation and erosion (Káta, 2011). The fresh supply of organic materials recovers the acid-base balance of soil and organic as well as green manure can replace several macro and micro elements in addition to nitrogen, phosphor and potassium. It should be noted, however, that in Hungary organic farming primarily means the limited use of pesticides and artificial fertilisers, but it does not yet include a wider use of methods that protect the soil. It is well-known that inverting the soil too many times leads to the loss of organic materials (Reicosky, 1997).

The increase in the size of areas included in ecological farming directly contributes to the spread of sustainable agriculture and any change in the indicator promptly reflects the effect of political decisions. In the future, this indicator should also include the areas with HCA (Hungarian Chamber of Agriculture) aids, though with a smaller weight, which place a smaller burden on the environment than general industrial tillage, and various technical and legislative methods should be used to spread the general use of *minimum tillage* and *no tillage* practices.

The *size of protected areas* in Hungary is increasing. One of the most important indicators of sustainability is the size of the area where efforts are being made to recover and maintain a natural state. The goal of farming in these areas is not profitability but preserving the conditions of a natural system and supporting the recovery of the system (Tardy et al., 2003). At the current level of development, there is no possibility to place all undeveloped areas under protection so that the conditions necessary for recovering the natural system can be created, but it should be expected that a) these areas will be increased to a justifiable level, and b) the complexity of the natural system in the areas already under protection will approximate the level of complexity that can be reached by primary succession.

The biodiversity of protected areas is increasing, which means that a natural system can be regarded as more sustainable not only in terms of its complexity but also in terms of its operation as compared to the low diversity of an agricultural area. Along with the index for areas under ecological farming, this provides more robust evidence for the regional implementation of sustainability, and their objectives are also similar: to reduce human impact in both areas with the difference that ecological farming is conducted in the hope of generating profit.

Diversity is decreasing extremely rapidly *in agricultural areas*, so one of the most significant sustainability indicators among those measured in other countries for these areas is the change in the number of *bird species* (Burfield–Van Bommel, 2004). When the frequency of certain Hungarian bird species are compared to the figures of EU countries where the use of agricultural chemicals has a long tradition and is also more advanced, it is striking that the frequency of most species is the highest in Hungary (Báldi–Kovács–Hostyánszky, 2010). These processes, however, are already taking the same direction. The *Pan-European Bird Index* shows a rapid decline in the number of bird species that can be linked to agricultural land between 1980 and 2000, with the decline slowing down thereafter. There are several reasons underlying the decline in the number of bird species. One of them is that bird habitats are disappearing along with shelter forest belts and lines of trees, and the size of agricultural plots is increasing. The other one is that due to extensive pest control, the amount of food for these bird species has declined significantly close to these agricultural plots.

If western tendencies have a stronger influence in the future, we should expect deterioration in this indicator. The effect of intervention by decision-makers can be measured more slowly than the other indicators (e.g. for ecological farming), but the interventions executed in other areas (e.g. increasing the area for ecological farming) have an impact on this indicator as well. Some of the trends in the Rural Development Programme (creation of agricultural systems, planting forest belts and hedges) can slow down or stop the decline currently visible in this indicator

A more efficient recycling of the amount of *waste* reflects and promotes making the “metabolism” – the materials cycle of society more sustainable, so this indicator is an adequate index. The outputs in accordance with the subsequent use of waste should be differentiated in recycling. If the raw materials making up a product are returned into the natural cycle without contamination, we are dealing with sustainable operation in terms of the materials cycle. If waste can be fully transferred into raw materials for producing other products, the materials flow is still sustainable, since waste is turned into valuable raw materials, but if a less valuable product is created through recycling (such as contaminated metal, plastic, etc.) where contamination prevents general use, recycling has failed to achieve its goal in full. The best examples for recycling can be seen in cyclical economic systems (Braungart–McDonough, 2007; Pauli, 2010), but in the current economic system it cannot be complete. It is worth looking at the amount of municipal waste generated and its ways of utilisation in an international comparison.

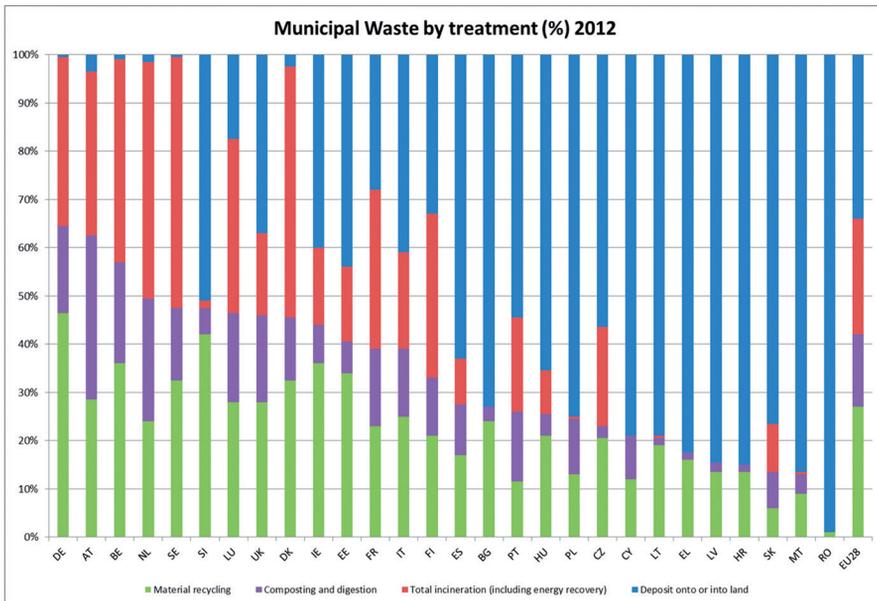


Figure 5

*Treatment of municipal waste by treatment method in the European Union, 2012*

Source: [http://europa.eu/rapid/press-release\\_MEMO-14-450\\_en.htm](http://europa.eu/rapid/press-release_MEMO-14-450_en.htm) Accessed: 12 September 2016

The green columns in the figure show the ratio of recycled municipal waste in the member states of the European Union. Hungary is in a leading position among the V4 countries in an international comparison together with the Czech Republic, followed by Poland and – lagging significantly behind – Slovakia. The European list is led by Germany, where over twice as much household waste is recycled than in Hungary. The utilisation rate is over 40% in Slovenia as well. It can be established that Hungary generally lags behind in terms of sustainable recycling methods to a greater or smaller extent from Western European countries but precedes most of the Eastern European countries

	1995	2000	2004	2008	2011	2014	change (%) 1995-2014
<b>EU-28</b>	:	521	511	520	496	475	:
<b>EU-27</b>	473	523	513	521	497	475	0
<b>Belgium</b>	455	471	485	479	456	435	-4
<b>Bulgaria</b>	694	612	599	599	508	442	-36
<b>Czech Republic</b>	302	335	279	306	320	310	3
<b>Denmark</b>	521	610	620	741	781	759	46
<b>Germany</b>	623	642	587	589	614	618	-1
<b>Estonia</b>	371	453	445	392	301	357	-4
<b>Ireland</b>	512	599	737	718	617	586	14
<b>Greece</b>	:	412	436	458	503	510	:
<b>Spain</b>	510	658	600	551	485	435	-15
<b>France</b>	475	514	519	541	538	511	8
<b>Croatia</b>	:	262	304	415	384	387	:
<b>Italy</b>	454	509	540	552	529	488	7
<b>Cyprus</b>	595	628	684	728	683	626	5
<b>Latvia</b>	264	271	318	345	350	281	6
<b>Lithuania</b>	426	365	373	428	442	433	2
<b>Luxembourg</b>	587	654	679	697	666	616	5
<b>Hungary</b>	460	446	454	454	382	385	-16
<b>Malta</b>	395	546	623	674	589	600	52
<b>Netherlands</b>	539	598	599	600	568	527	-2
<b>Austria</b>	437	580	574	600	573	565	29
<b>Poland</b>	285	320	256	320	319	272	-5
<b>Portugal</b>	352	457	445	518	490	453	29
<b>Romania</b>	342	355	349	411	259	272	-20
<b>Slovenia</b>	596	513	485	542	415	432	-28
<b>Slovakia</b>	295	254	261	313	311	321	9
<b>Finland</b>	413	502	469	521	505	482	17
<b>Sweden</b>	386	428	460	483	449	438	13
<b>United Kingdom</b>	498	577	602	541	491	482	-3
<b>Iceland</b>	426	462	503	495	320	345	-19
<b>Norway</b>	624	613	414	487	485	423	-32
<b>Switzerland</b>	600	656	660	736	689	730	22
<b>Montenegro</b>	:	:	:	:	:	508	:
<b>The former Yugoslav Republic of Macedonia</b>	:	:	:	:	357	370	:
<b>Serbia</b>	:	:	:	347	375	302	:
<b>Turkey</b>	441	465	440	400	416	405	-8
<b>Bosnia and Herzegovina</b>	:	:	:	:	340	349	:

(-) not available

Table 1  
*Municipal waste generated per capita in the European Union.*

Source: [http://ec.europa.eu/eurostat/statistics-explained/index.php/File:Municipal\\_waste\\_generated\\_by\\_country\\_in\\_selected\\_years\\_%28kg\\_per\\_capita%29.png](http://ec.europa.eu/eurostat/statistics-explained/index.php/File:Municipal_waste_generated_by_country_in_selected_years_%28kg_per_capita%29.png). Accessed: 12 September 2016

It is worth noting the value of municipal waste generated per capita (see *Table 1*), which shows that the waste generated by consumption per capita is below the European average in Hungary. This value is significantly lower than in the majority of Western European countries and is only slightly higher than in Eastern European countries. It shows a declining tendency, which means that all in all – coupled with the increase in the ratio of recycled materials – it is a favourable process in terms of sustainability. It continues to be an important goal to further reduce the amount of waste generated and significantly increase the ratio of recycled materials.

#### 4. Energy and water dimension

Society needs increasingly more energy to function. The increasing population and needs both require more energy. Since it is equally important for freshwater to be available for households and industry and agriculture, these two resources are assigned separate indicators in the survey.

Changes in energy use in the past offer two lessons: firstly, up to now there has been enough energy in the developed world to meet needs, and secondly, these needs have been met in the past 250 years by using increasingly more fossil energy sources. An additional problem for Hungary is its unilateral dependence on energy import, which is the heritage of COMECON. Most of the natural gas and oil pipelines come from Russia through Ukraine, which has caused difficulties on several occasions in the past few years (e.g. Ukrainian – Russian gas disputes). The other important issue is the high share of fossil energy sources. Although this ratio is high in every developed economy, there are significant efforts being made in the EU in order to rapidly increase the share of renewable energy sources.

It is extremely important to measure the energy use of households, firstly because the consumption of household accounts for 35–40% of total energy use (in 2014 it was 185 PJ), and any change in it can lead to significant savings; and secondly, by launching programs targeting the general population as well as the health and construction engineering sectors can be given a boost and after the expiry of the payback period, the households can generate significant savings. As far as access to water is concerned, Hungary for the time being is quite well supplied, although water balance data reflects an insufficient basis as the amount of water leaving the country and evaporating within the country exceeds the amount of water coming in through rainfall and the rivers entering the country in most years, meaning that the country is drying out.

The energy mix of a given country and its dependence on fossil energy sources are characterised by *primary energy consumption per source*, and the direction of processes reflects the course the energy policy of the country has taken and the crucial processes that are taking place in the area of energy. In the case of Hungary, the high dependence on fossil energy sources should be highlighted, which was 68% of total primary energy use disregarding imported electricity. The amount of natural gas used in the country has been decreasing year after year for two reasons. The first reason is that the winters are generally milder and as a result, less natural gas is used, and the other one is that since imported electricity has been cheaper recently than the power generated in domestic gas-fired power stations, these large facilities operate less every year.

Although the use of renewable energy sources is slowly expanding, Hungary is lagging significantly behind others since renewable energy generation based on biomass is predominant as compared to clean renewables such as the wind and solar energy visible in the development profile of EU countries. Although the interventions by decision-makers can generally be monitored quite well in the indicators of primary energy use, economic processes or weather conditions can also lead to significant changes.

Water consumption is one of the most significant indicators of sustainability. At the same time, since access to fresh water is essential for humankind, it cannot be reduced to any degree – like biomass production – and there is a theoretical minimum limit to potential savings. The decrease measured by our dataset derives from several components: firstly, the rise in the fee payable for water, secondly, the rise in the cost of sewage water management and thirdly, the decline of water-intensive industries at the time of the political transition.

The dataset for mains water is a good indicator for sustainability efforts and measures as this effect is directly reflected in the data. The intervention options include water-saving campaigns and the spread of water-saving percolators as a short-term solution. In the long term, the water footprint of products should be reduced (water footprint means the amount of water used for a given product). Water output per capita is often used as an alternative indicator in other parts of the world, which is independent of the habits of households and reflects the state of the water cycle. The ratio of these two numbers could also be interpreted and evaluated. This indicator should especially be assessed along with the indicator measuring sewage water treatment. In terms of its effects, it is associated with the risk of a decline in system-level water output caused by climate change, so it should be treated together with global climate indicators.

Net water balance is used every year in Hungary's water management, which shows how we treat the incoming waters. Since the amount of water coming in and leaving through the rivers can be measured, rainfall is a known figure and evaporation can be estimated, a water balance can be made on the basis of the principle of conservation of matter. The balance data show that in most years more water leaves the country than the amount coming in, meaning that the joint effect of water outflow and evaporation leads to a negative balance. Since due to climate change we should expect less precipitation in the years to come (according to the data of the National Meteorological Service<sup>5</sup>), we need to make efforts to retain our water, in which water management and the degree of coverage of land surface play the most significant role. Before the Turkish occupation, the region north of Kecskemét was covered by forests, as was the Great Hungarian Plain (Hornyik, 1862), except for the grass-covered patches of land in Kiskunság and Hortobágy. Since then, the forests that could truly be called woodlands have disappeared in the Great Hungarian Plain, although they were responsible for absorbing spring floods and gradually feeding the water back into the air. We can start to improve the water balance by replacing the current water management method that is designed to drain the output of large waters by a system that aims to retain water, where it is stored in living systems of the land.

The measurement of the final energy use of the population is a good indicator to show how responsibly our citizens use energy and how each of the governmental interventions can

<sup>5</sup> Available at: [http://met.hu/eghajlat/eghajlatvaltozas/megfigyelt\\_valtozasok/Magyarorszag/](http://met.hu/eghajlat/eghajlatvaltozas/megfigyelt_valtozasok/Magyarorszag/). Accessed: 12 September 2016

accomplish their goals. The campaigns targeting the population, the economic processes and the national energy policy equally leave their mark on this indicator, but the effects cannot really be separated as there is only a weak correlation, for example, between the number of cold days and nationwide natural gas consumption. Nevertheless, it can be seen that energy use by households is decreasing for several reasons, including the rise in the price of energy sources, more advanced household appliances and building engineering methods, more modern building standards, an increase in awareness and milder winters. The government has a wide range of choices for intervention that can be arranged in a hierarchical system, ranging from statutory regulations applying to the energy use of buildings to a nationwide reform of the energy system.<sup>6</sup>

“*Resource productivity*” is calculated by dividing GDP by domestic materials use. Domestic materials use measures the amount of material goods directly used in the economy. It is defined as the annual amount of raw materials exploited in a given economy increased by the amount of imported materials and decreased by the amount of exported materials (HCSO, 2009). Resource productivity increased by about 20% in the European Union between 2000 and 2011: from EUR 1.34 to EUR 1.60 per kilogram of raw materials. In the same period, the economy increased by 16.5%.

When we compare the resource productivity of the V4 countries in 2009, we get the following figures: Hungary: 0.56, Czech Republic: 0.49, Slovakia: 0.46, Poland: 0.42. For further comparison: Slovenia: 0.8, Germany: 1.75, Great Britain: 2.92, Switzerland: 3.34 (HCSO, 2009). The natural counterpart of the resource productivity indicator is the energy-intensiveness of the economy. These two indicators jointly define eco-efficiency. The principle of eco-efficiency means that we want to produce as many products as possible by using as few resources and causing as little pollution as possible. Richer countries typically have higher eco-efficiency, although this is partly due to a higher numerator (GDD). Therefore, we can see an opportunity for the government to encourage development by raising awareness among the SMEs in connection with the significance of eco-efficiency with campaigns similar to the one conducted under the title “Throwing money in through the window.” It would also be extremely important to ensure that the commercial chain and the households act more carefully, for example by reducing the waste of food.

## 5. Environmental burdens (emissions) dimension

Economic systems use the natural environment not only as a source but also as a consumer. One of the extremely important elements of emissions is greenhouse gas emission, which is given a strong focus today but in view of this magnitude, it is not among the top issues. According to current estimates, humankind produces 350 billion tonnes of waste annually. Global processes indicate that there are efforts being made in the developed countries to reduce waste emission as much as possible or eliminate it altogether. There may be processes in a new economic model that seeks to achieve full materials cycles not only in agricultural production but also in the operation of industrial processes (Pauli, 2010).

<sup>6</sup> For the hierarchy of intervention options see: Meadows (1999).

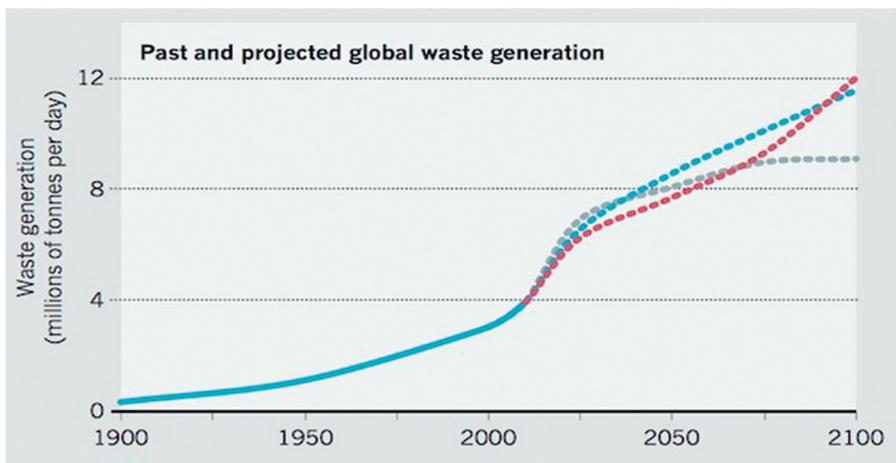


Figure 6

*Current and future waste emissions in million tonnes/day*

Source: [http://public.media.smithsonianmag.com/legacy\\_blog/waste-projection-graph.jpg](http://public.media.smithsonianmag.com/legacy_blog/waste-projection-graph.jpg).  
Accessed: 12 September 2016

The measures taken by decision-makers can reduce the *waste intensity* of the economy in several different ways: by introducing product charges, various requirements and stipulations for manufacturing processes, subsidising an economic paradigm shift and creating the necessary legislative environment. In the current economic paradigms, the waste intensity of the economy cannot drop below a certain level or limit. The results of this lies in the economic paradigm itself. The details of this phenomenon can be found in *Növekedés határai* (Boundaries of Growth) (Meadows, 2005: 159).

In the context of *the ratio of sewage water treatment*, it is closely related to the use of mains water per capita, since it means that clean water is returned back to the natural cycle after having been used through the water system as a source. One of the most serious environmental problems of natural systems is the overload of nitrogen and phosphor flow under the bio-geo-chemical cycle (Rockstörm et al., 2009). One of the major causes is that untreated sewage water is fed back into natural waters. Feeding back sewage water in a condition that is as clean and as close to its natural condition as possible complies with the basic principle that material flow simulates the natural cycle and returns the materials used by society to the natural system free from contamination. The most important option to improve this index at the level of decision-making is to support a multi-phase (mechanical and biological) cleaning process along with promoting the measures taken in connection with water use (reduction of consumption).

*Emission into the atmosphere* is a significant indicator because of the greenhouse gas effect and also because of the impact of various toxic materials on health (carcinogenic, mutagenic effects, allergenic symptoms). This indicator is weighted by the number of people

living locally, so it can also be seen what collective risk the people exposed to pollution are taking because of the emission. The regulation of the most significant sources of emission (industry, transportation, households, and the energy sector) is especially important but it is also hard to measure. It would be difficult to investigate the sources of individual heating or waste burning in households. People often burn plastic and rubber waste, especially in disadvantaged regions, which places a significant burden on the environment, but this cannot be easily measured or sanctioned. With the elimination of heavy industry and the decline in coal-based heating, the degree of emission has decreased – the current stagnation of the index is mainly due to outdated vehicles (diesel engines).

One of the most important macro elements in industrial farming that is replaced year after year is *nitrogen*, which is used typically in Hungary, as well as nearly everywhere due to the spread of industrial farming, and ammonium nitrate, the production of which is extremely energy intensive. Since their examination is crucial, they should be chosen as indicators.

If we rely on long-term datasets, it can be seen that practically no artificial fertilisers were used in the 1940s (with an average of 2.2 kg/ha NPP [nitrogen, phosphor and potassium] fertilisers), while in the 1970s it was 270 kg/ha after cooperative and state farms had switched over to industrial farming. After the political transition, this number dropped and began to rise again, reaching about 95 kg/ha around 2010 (Márai, 2013). The overload of soil with nitrogen and the inevitable erosion of sloping areas increase the risk of high nitrate content accumulating in surface and underground waters. The goal to be achieved in sustainable farming of keeping the nitrogen balance of the soil close to a zero average is a difficult task in industrial farming, due to the high level of automation, the fact that it is easy to spread fertilisers and that many farmers believe that good yield is correlated with the amount of nitrogen. This is not an unfounded view, but it does have a number of negative consequences in several respects (on the long-term quality of the soil, increase in nitrate content). Individual economic interests (higher yield) cannot be allowed to override the community's sustainability interest (better underwater quality). In the wake of the most recent measures, farmers need to observe requirements (for soil examination, further requirements for spreading fertilisers for farmers cultivating nitrate-sensitive areas), which can help reduce the accumulation of nitrate content effectively if the regulations are observed.

When revising the indicators, the most widely used alternative was introduced in the indicator set. The ecological footprint is an indicator used in resource management reflecting how much fertile land and water an individual or group of individuals (organisations, or even a particular product or service) needs at a specific level of technological development to meet (or generate) their consumption needs and to absorb the waste generated during the process. The term was invented by two Canadian ecologists, William Rees and Mathis Wackernagel. The ecological footprint comprises six main land use categories: arable land, grassland, woodland, fishing areas, developed areas and the size of energy land required for absorbing CO<sub>2</sub>. It takes into account total consumption by land use category and uses *equivalence factors* (EQFs) to convert it to an area of productive land corresponding to the world average expressed in hectares. The index numbers slightly change every year, but their overall level is generally constant (Szigeti–Borzán, 2012).

This index represents a basic change in attitude with respect to profit- and return-oriented strategy creation, so it is not surprising that most governments do not know how to

deal with it. As long as the balance of natural resources cannot be measured and raw materials production and the deterioration of environmental conditions do not appear in the international indexes, only the declining stocks and the drop in the output of certain industries (and climate change) warn us that we are overusing the Earth. It is worth noting that the calculation of the ecological footprint (and biological capacity) can make these outputs measurable.

## 6. Social dimension

One of the least tangible components of sustainable development is the area of social aspects. "Many psychologists and sociologists, and socio-biology as a whole [...] consider self-interest as the ultimate motivation underlying any human behaviour and construes its genetic models in order to justify this. According to a socio-biological dogma, every human process can be explained by laws applying to individual behaviour. Groups and other social organisations are not ontological realities." (Csányi, 1999: 141).

According to certain economic criteria, which are the most restrictive factors in sustainability, people are "rational individuals trying to generate as big a profit as possible. People seek to acquire as much as possible of the things they find useful, and they do so in a rational way, presenting themselves as individuals by weighing alternatives and chances who seek to fully meet their own needs first and think of the larger group they are part of only afterwards." (Fukuyama, 1997).

When identifying the social indicators, we started out by assuming that in a happy society individuals are happy and live long in good health and in harmony with nature. In addition, they have the opportunity to pursue useful activities in accordance with their capabilities and intentions, as a result of which they can provide for their own subsistence and that of their loved ones. We have chosen an index as a key indicator for the social aspects of sustainability that is suitable for reflecting the problem which typically characterises developed welfare states. *Dependency rate* reflects the ratio of dependant age groups to productive population. It usually refers to individuals below 15 and over 65 years of age (inactive people). In particular, it is also worth examining how large the old-age dependency ratio is and how it relates to the ratio of young dependants.

In Hungary, the dependency rate of elderly people and the young population changed between 2004 and 2005. The ageing of the population is a demographical process with long-term effects and, like in the case of other aspects of sustainable development, we need to be prepared for its consequences well in advance because there are limited options for intervention that certainly do not lead to prompt solutions. Another area that requires an extremely complex and long-term approach is the development of education. The ratio of expenditure on education relative to GDP, which was one of the sustainability indicators in the 2015 report, now belongs to the economic impact area in the new report. This means that we have decided on using an indicator that is less known and widespread in our impact area. The ratio of students studying and the ratio of teachers teaching in eco-schools, however, is much closer to what we want to measure, raising environmental awareness. We need a new approach to education at the current level of development that requires proper infrastructure and a diversified education strategy. As has been put by Sir Ken Robinson: "Like a healthy ecosystem, a healthy society should also be diverse."

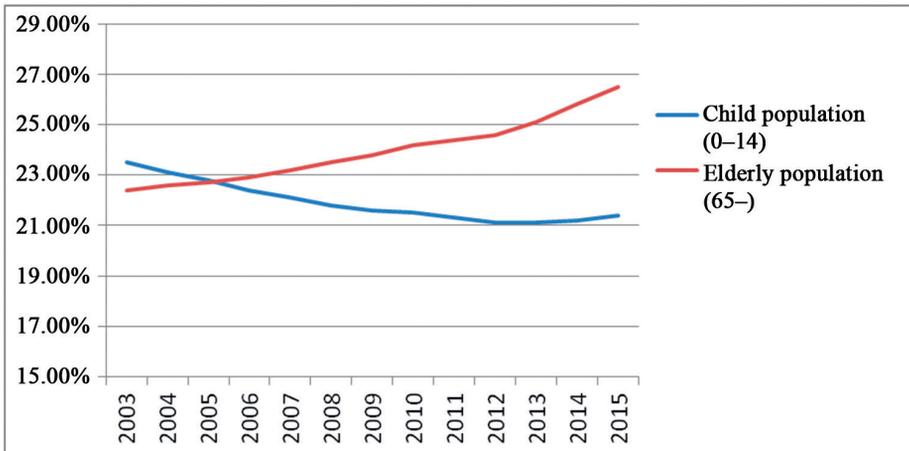


Figure 7  
Dependency rate (%)

Source: Authors' edition on the basis of HCSO data (2016)

Note that a larger expenditure on education is unavoidable in order to achieve a system-level change for future success. As the present education system was created in accordance with the needs of an outdated economic era, it is unable to prepare students to manage current challenges and tasks. Although the funding of education is important for society, the elements of raising environmental awareness in education are of key importance for sustainability.

One of our previous objectives was to have reliable data on how environmental education is reflected at the various levels of training, which has been partially accomplished. One of the most important positive features of this initiative is its voluntary nature. The Hungarian Network of Eco-schools operates as part of an international network. It was founded in March 2000 as a Hungarian branch of ENSI (Environment and School Initiatives), an eco-school program based on an international environmental education system, coordinated by the Centre for School Development and Integration of the National Public Education Institute.

As we have referred to it in connection with the dependency rate, the other important area of social well-being is the level of healthcare services. The development of a given society is best and most conspicuously reflected by the advanced state of its healthcare system. Today, one of the most profitable sectors is healthcare and the prevention of illnesses. According to the *Forbes'* ranking, five of the first 15 most profitable businesses are pursued in the area of healthcare. Today, the healthcare expenditures of the United States exceed 3 trillion US dollars. We again managed to refine our indicator as planned with respect to the previous indicator. As has been suggested before, we also want to focus on which types of diseases are related the most closely to the burdens generated by the current economic system. Most of the harmful environmental factors have either a direct or an indirect impact on the human body. The diseases caused by these factors not only influence well-being but also place a significant economic burden on society.

This is why we decided to choose the ratio of overweight and obese people within the adult population (%). Obesity is associated with biases in most developed countries, although there have been periods in the history of mankind when it was a symbol of well-being and fertility, and in some societies it still is. Obesity is a typical problem of welfare societies. It is constantly increasing, which can also be attributed to the characteristics of these societies, such as an easily accessible and nutritious diet, widespread use of cars, insufficient sleep, and a decrease in temperature deviations as well as stressful life with not enough exercise. Obviously, obesity is a risk factor not only for adults. Due to childhood obesity, certain diseases, such as high blood pressure or diabetes – which used to affect adults – have become quite frequent among children (Medicalonline, 2011).

In addition to the value of the ecological footprint, the amount of municipal waste per capita perfectly reflects the population’s awareness and attitude. This indicator represents several factors simultaneously, such as: the amount of consumption (how much we buy); conscious consumption habits (the products we buy); the selection of waste; and recycling, reuse and composting. We decided to choose this one among the indicators measuring conscious consumption because in addition to consumption habits, it also demonstrates the degree of environmental load. Therefore, it could be used in the emissions dimension as well, but we included it in this dimension because the number of indicators is limited. If we take a look at the other member states of the EU, we can see that Hungary belongs to those countries where the amount of waste per capita is relatively low. What is less favourable, though, is the method used for treating waste (there is no index for this in the present set of indicators).

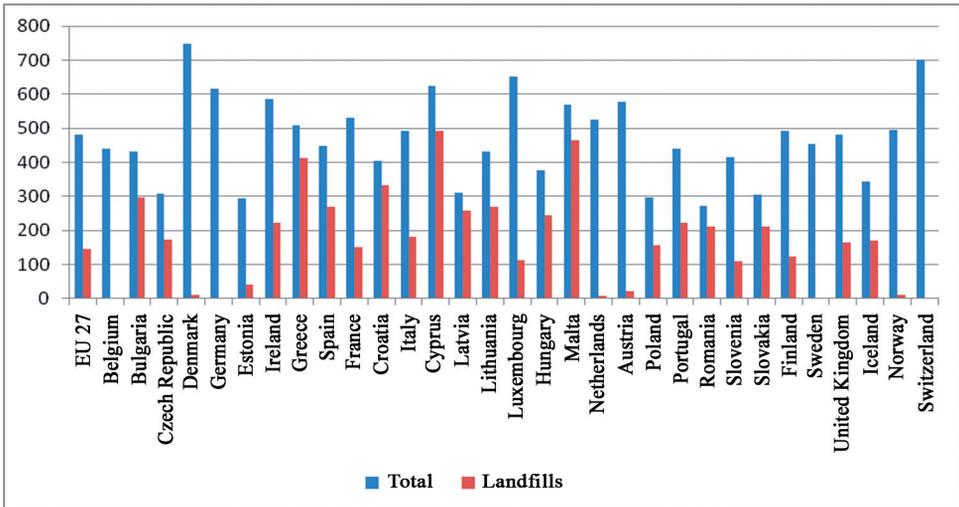


Figure 8

*Amount of municipal waste and the amount of waste deposited in landfills (kg per capita), 2013*

Source: Authors’ edition on the basis of Eurostat data (2016)

The Italian economist Corrado Gini (1884–1963) was responsible for the Gini index, which measures the inequalities in statistical distributions. It is generally used to measure inequalities in the distribution of income and wealth. The value of the *Gini index* is typically between 0 and 1, but it can also be expressed in a percentage form. 0 stands for total equality, meaning that every member of society has exactly the same income, while 1 represents total inequality, meaning that a single individual has all the income and others have nothing. We do not wish to address its calculation (Lorenz curve) and its shortcomings here.

As shown in *Figure 9*, Hungary is certainly among the best countries in terms of the distribution of income. The distribution of wealth shows much larger inequalities than incomes everywhere. Hungary's 0.29 value shows a small degree of inequality. Denmark (0.25) and the Czech Republic (0.26) boast a better value in the Gini index, while Estonia and Greece (0.34) perform much worse than our country.

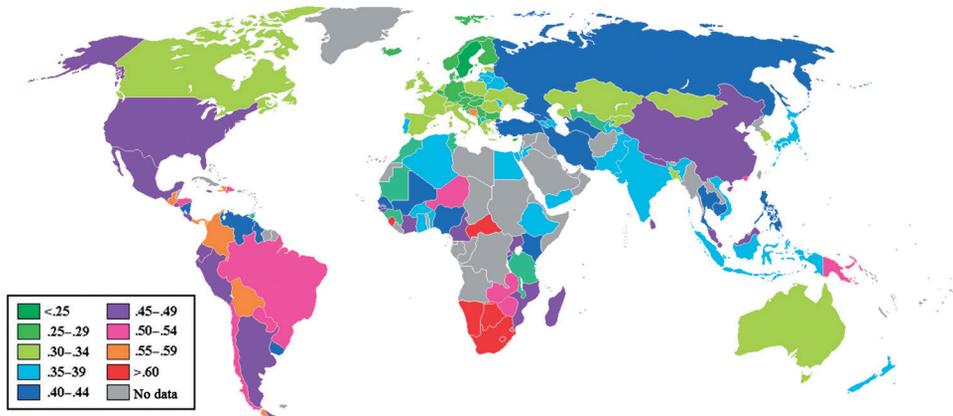


Figure 9

*Values of the Gini index worldwide in 2009: differences in income distribution*

Source: CIA Factbook, 2009

At the same time, the *Good State and Governance Report* clearly shows that the value of the Gini index has been constantly declining in Hungary. In order to remedy this situation, we need to continue to promote making the range of people owning the means of production, especially of arable land, much wider. Small and medium-sized enterprises should be supported and especially the domestic markets should be protected.

## 7. Conclusions

The proper interpretation of sustainability requires a complex approach. This complex approach, however, makes decision-making extremely difficult because the effects can often be foreseen only in the short term and even in this short term there are several conflicting interests. The complex nature of the concept is a challenge from a scientific point of view as the proper interpretation of the phenomena requires the fundamentals of both natural sciences and social sciences. Cooperation among experts of both these disciplines is required to arrive at proper interpretations and provide guidance that can be real assistance for decision-makers.

It is an extremely important task and a great challenge to measure and make the major intervention points interpretable in the area of sustainability with the help of a few key indicators. The sustainability indicators of the *Good State and Governance Report* have been designed to meet this challenge. The topic of sustainable development is one of the most dynamically developing areas. Changes in external factors have an influence on it as well as on the way in which social and economic systems respond to these external factors or how technology develops over time. Since it is a relatively young but complex area, it is significantly influenced by numerous international and domestic environmental, social and technological changes. Therefore, the indicators need to be duly robust but at the same time “forward-looking.” The scholars studying this impact area seek to accomplish this mission by involving numerous experts. Obviously, we do not consider this work completed but we believe that the current results can be used as a cornerstone for future research.

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# Current issues in the measurability and research of democracy

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## 1. Introduction

Given that a state under democratic rule of law is an indispensable prerequisite for exercising and promoting fundamental human rights, the time has come to refocus in terms of political science research. Developments in recent years have clearly shown that the state must take on a role of creating and protecting value in the political, economic and social spheres in order to enforce the abstract system of ethical norms that serves the interests of the common good (Kaiser, 2016: 1). There is a strong need for providing the structure of the political system with solid interdisciplinary foundations in accordance with the scientific paradigms of the 21<sup>st</sup> century. The subject of political science as an independent discipline, and the study of state functions relates to the relationship and interaction among the various branches of law, political science, economics, law enforcement and military science. (Kaiser, 2016: 1). Democracy and the democratic operation it entails provide a theoretical framework which unites the disciplines mentioned above at a fundamental level. The principle of democracy and its practical implementation have a fundamental impact on the competitiveness and efficiency of both the public and market sectors.

The primary component of democracy is political pluralism, the main tool for expressing the will of the people. Popular will is manifested directly in elections and exerts an influence on the structure of the entire political system through the elected members of Parliament. In addition to ensuring political competition necessary for the proper expression of the people's will, democracy also promotes political participation, creating a quasi "supply and demand" situation.

Another indispensable prerequisite for democracy is to provide an opportunity for democratic dialogue for political actors, as well as representatives of the non-governmental sphere. It is also important to mention the importance of access to public data, since objective information is needed in order to form a general standpoint that can satisfy the society as a whole. This can also act as a control function with respect to executive power or also help demonstrate its efficiency. With that said, the media and the freedom of the press have an

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essential role in the development of the will of the people. On the one hand, this can be seen in media pluralism, which means access to a variety of media products with different ideologies and, on the other hand, in the requirement of providing balanced, objective information. The protection of these democratic freedoms requires the democratic exercise of power, as antidemocratic means cannot protect these freedoms as they would then raise issues of self-identity for the whole political system.

The condition for the democratic exercise of power is a well-balanced system of *checks and balances*. One of the possible tools for this is increasing the importance of the Constitutional Court and the external bodies responsible for supervising the National Assembly, as well as to expand existing powers and authorities. These bodies can also be used to measure the extent of the awareness of law, since the number of complaints and initiatives submitted by citizens demonstrates the extent to which citizens are aware of law. Furthermore, political awareness, meaning the willingness to organise political events, is also an essential component of a democratic state under rule of law. This is reflected by the number of citizens exercising the right of assembly and the number of registered demonstrations, irrespective of whether such demonstrations are pro- or anti-government protests.

This study proposes a set of indicators to measure the properties and requirements discussed here covering the areas related to democracy and democratic rule of law. By its very nature, the study of this impact area – in line with initial expectations – strongly relies on the 2015 *Good State and Governance Report*, since it tries to address some novel issues that have emerged since the publication of this report by maintaining some kind of continuity. The analysis of this impact area uses both objective but narrow and subjective but broad indicators.

### **1.1. The objective and positioning of the Democracy impact area**

Democracy provides the basis for the power relations of the “good state” and is the source of its verifiable and transparent operation and its capacity for renewal. The concept of the good state can be defined as a public entity which creates a community that can effectively protect its citizens and satisfy their needs, and in doing so, avoids becoming top-heavy and oversized. This means that an ineffective or wasteful state cannot be a good state, since it cannot properly serve the interests of its citizens. The good state and the requirement of efficiency therefore go hand in hand. The good state is one of the most important measures of the realisation of democracy. Our research group firmly believes that a good state also needs to be efficient. The Zoltán Magyary Public Administration Development Programme is designed to increase efficiency. The programme addresses the realisation and extension of the good state closely related to deregulation in public administration and in the development of linear (one-way) and matrix (circular) procedures, meaning the simplification of bureaucratic public procedures. The primary goal of the research group studying the Democracy sphere of influence is to work out a set of indicators which quantifies any government capabilities which have an influence on and determine the most important components of democracy, and which can be used as a partial index for the good state, comparable with the indicators of the other impact areas.

The starting point of the study in this impact area was a “minimalist concept” of democracy, which means that of the various conceptual dimensions, the research group

concentrates primarily on essential ingredients, that is, it records its own conceptualisation of democracy in the substantive registers of political competition and political participation. We want to emphasise here that the concept of democracy also includes the requirement for effective rule of law, and as part of this, effective operation on the part of institutions, as well as respect for individual and collective rights and accountability. The rule of law and democracy are inseparable concepts, since the democratic exercise of power sets up limitations to itself by commitment to law, that is, by maintaining the rule of law.<sup>3</sup> Only an independent, democratic state under the rule of law can meet the requirements of constitutionality in accordance with international law. Under an “average” (liberal) approach to democracy, respect for individual and collective rights and accountability, as well as the requirement for the actual operation of institutions are complemented by social dialogue, democratic exercise of rights, as well as the freedom of the press and speech. In doing so, the research group dismissed the idea of assessing the substantive/thematic areas characteristic of a “maximalist/widespread” approach (such as “good government” resulting in social equality, economic development, a good quality of life and widespread satisfaction).

## 1.2. Relationship with other impact areas

Democracy is a target-type area among the different impact areas, just like Security and Trust in Government and Public Well-being. On the basis of studying this impact area, proceeding along a horizontal (public policy-oriented) concept of effective governance, there is a primary relationship with the Rule of Law, the Security and Trust in Government and the Sustainability impact areas. Furthermore, there is a secondary relationship with the Public Well-being and Economic Competitiveness impact areas. In this context, however, a distinction must be made from the indicators of the Rule of Law (impact area VII) and the Security and Trust in Government (impact area II) impact areas. The Democracy impact area (impact area V) essentially examines trust in legal justice and legal protection of core democratic principles, as well as the substantive merit of and compliance with the law in the context of legal certainty. The issues of rule of law, core democratic values and human rights can be related to the “average” (liberal) level of democracy, and examining it is of fundamental importance from the point of view of the predictability of the democratic operation of the individual legal institutions. The trust in legislation and the perception of legal security that is built on it – as the formal and narrowest content of legal certainty – had to be examined in the Security and Trust in Government impact area.

The first two components of the impact area – the direct adaptation of political competition and the political participation sector in relation to the version of democracy developed to be put into operation – are two fundamental conceptual dimensions of the democratic idea. The category of social participation differs from the concept of political participation in terms of content, so it was treated separately in our study. Social participation is essentially free from any party policy element and means active participation in “civil” public actions by citizens (which is close to the concept of *public participation* used in the international literature).

<sup>3</sup> Fundamental Law, Article B (1).

The democratic exercise of power analysed in the impact area entails the adaptation for use in operation of the third conceptual dimension emphasised in the average-level approach to democracy. Freedom of speech and of the press also, in part, include this conceptual element emphasised in an average approach, and at the same time, one can identify in it the framework conditions of political competition, as well as being an important factor in and catalyst for political participation. The research introduced the components that are considered to be the most important for democracy, along with the government capabilities that impact them by first formulating the concept, reflected in history, that takes into account a pluralistic interpretive environment, and then deduced them from the most important dimensions of understanding found in the definitions. It should be noted that when studying the Democracy impact area and political areas, the research group took into account the cyclic nature of civic democracies, that is, the characteristics of the political period before and after elections. It filtered out these special periods and focussed on the period in the “middle of the cycles” in the study of political competitiveness and political participation.

The study of this impact area identified the following government capabilities<sup>4</sup>:

1. *Ensuring political competition*

As a maximum goal to be accomplished, the study of this impact area aimed to provide for (and guarantee) the fair and unrestricted enforcement of competition between political alternatives, organisations and programmes, as one of the essential conditions for the democratic functioning of public life.

2. *Promoting political participation*

The government capability relating to this sector can be defined as the government’s assuring or promoting, in the interest of the democratic functioning of public life, one of the fundamental conditions for such: participation in managing and influencing public matters and in political decision-making.

3. *Promoting social dialogue*

The government capability relating to this sector shows the extent to which, during the course of political decision-making, the opinions and series of technical proposals by the affected social sub-systems and relevant organised groups, as well as non-governmental organisations (NGOs) can be articulated and presented to the public, and become part of public-policy and political decisions during the course of the decision-making process at different levels of the political system.

4. *Ensuring the democratic exercise of rights*

The government capability characterising this manifests itself as one of the elements of the rule of law, in the assurance of the exercise of democratic rights and the defence of democratic freedoms, which can be ensured by the functioning of the system of institutions and instruments in Hungary that guarantee the requirement for equal treatment.

5. *Ensuring the freedom of the press and freedom of speech*

The government capability belonging to this sector is the assurance of the most effective and most useful means for dialogue between government and governed, as well as freedom of the media, which also performs the function of social control.

<sup>4</sup> Government capabilities mean the set of tools through which the government can ensure political pluralism and the enforcement of fundamental human rights both in legislation and in the application of law.

## 2. Sectors in the impact area, government capabilities and indicators

### 2.1. Political Competition Dimension

One of the basic conditions for the modern and democratic exercise of power is the fair and unrestricted enforcement of competition between political alternatives, organisations and programmes. The measurement of political competition is one of the central areas of investigation in political science, as well as a recurrent fundamental element of measuring democracy.<sup>5</sup> The literature on political competition is extremely diverse and elaborate. This study outlines (in a goal-oriented manner) only the concepts, suggestions and issues that are deemed as the most important for the creation of indicators.

According to Pokol (1988), politics is a large subsystem of society whose binary code is based on the dual value of “govern or be in opposition.” As a result, it is primarily the elections<sup>6</sup> where the organisation of this dual value system and the result of political competition itself are determined in the social subsystem of politics. Therefore, the major topic of our studies is the main characters in the elections, the political parties in the context of political competition. The relevant literature stresses that there are several other arguments for ensuring political competition in addition to those practical and technical arguments reduced to a democratic “minimum.” It also underlines that political competition is not only an “empty” procedural framework, since strong normative arguments support the need for political competition, which should be guaranteed for the accomplishment of important normative objectives, such as the accountability of political formations – see the issue of political responsibility – or the pressure by the current political rivals due to the possible loss of support.

The campaigns accompanying competition in the elections inform and mobilise the citizens, who lack information and become politically passive from time to time. So, it can be established that political competition heavily relies on the cyclic nature of the elections. Competition generally eases off in between elections. The period within cycles has a special and very different mechanisms from the one characterising elections. From a constitutional aspect, several solutions can be observed that are designed to blunt this cyclic deviation or make it more frequent, thereby maintaining the interest of the voters and responding to any change in their mood. These solutions lead to a kind of permanent and keen competition.

We have not seen any solution like this in the Hungarian election system. In the past two decades, the political parties have been challenged in keen competition only every four years – in the spring and in the autumn – with the exception of a few politically motivated referendums, such as the one in 2004 or 2008, and the European parliamentary elections following our accession to the European Union, which were held in 2004 and 2009 within the parliamentary/municipal cycle.

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<sup>5</sup> The indicators, which are used by Freedom House mostly in connection with “political pluralism”, include them just like the Polity VI indicators, World Bank’s DPI, PoliarchyDataset or the Vanhannen Index.

<sup>6</sup> The attribute “primarily” suggests here that we can also, so other factors that can have an influence on the organisation by the dual value. These include, for example, the coalition negotiations between the political actors after the elections.

We can see numerous international examples for more frequent keen political competitions, which means that there are fewer periods without a political stake. For example, in some countries political competitions of national or other (local) importance that mobilise the political life of the given country are conducted not only every four years but they are more evenly distributed in time. One of the important factors in this context is which bodies and officials are elected directly by the voters in addition to the members of Parliament based on popular representation. Especially presidential and semi-presidential states have a president directly elected by the people, although Slovakia can be mentioned as an exception, where despite the parliamentary government system, the president is elected directly. As Cservák's study (2010) clearly shows, the time of presidential elections differs from the time of parliamentary elections in nearly every state where the president is elected directly, making the challenge for the political actors more frequent (for more on this, see: Cservák, 2010).

Additional factors influencing political competition may include the set-up of the body of popular representation and the special features arising from the method of its election. On the one hand, it is important whether the National Assembly has one or two chambers, since if the election of the members of the second chamber in a democracy based on popular representation with respect to the election of the members of the lower house is shifted in time, it can also stimulate political competition. Another important factor for political competition is whether there is any rotation in the national assembly with its members replaced from time to time. It is also possible that the two methods strengthening political competition are combined. This is how the structure of legislative power looks like in the Czech Republic, where the people are also represented by a second chamber – its members, just like those of the lower house, are elected directly by the voters on the basis of a different election system – and in addition, the members of the upper house are constantly rotated. Although the mandate of the 81 members of the Senate is for six years, there are elections for its members every two years, when two-thirds of the representatives are elected. All this creates an environment in which keen political competition is nearly constant.<sup>7</sup>

It is not insignificant for political competition whether the structure of the given state is unitary or federal, since the parliamentary elections of member states in a federal state are also held in addition to the federal elections but the former are shifted in time, where in most cases the national parties compete with one another. We can mention Germany as an example where the regional elections often receive nationwide attention and they are important in a political sense for the whole nation, although a particular political side is traditionally stronger in certain federal states. The relationship of the municipal election cycle with parliamentary elections is also important, since the former has not yet had any stimulating influence in the Hungarian system – as the municipal elections usually follow the parliamentary elections a few months later. In an international comparison, however, we can see several examples for a shift of municipal elections. Finally, when discussing the scenes of political competition, we need to note the election of a special body of popular representation, the European Parliament, where the political parties fielding national lists compete in a system based on the proportion of each country. Although in this case, the turnout of voters in Hungary is traditionally lower – like in several other countries – and as

<sup>7</sup> Also because in the Czech Republic mentioned as an example, the president is also elected directly.

a result, it may seem to be a kind of secondary theatre of war in political competition, it is still a factor worth mentioning in the context of political competition.

We have already discussed the possible contest venues that should be addressed in a paper analysing political competition. In view of all this, there are only three events in Hungary, the parliamentary, the municipal and the European parliamentary elections that should be examined – two of these three events are held in the same year with a few-month difference in time. On the basis of this, it becomes clear that for lack of real political competition there are three years in between two parliamentary/municipal elections during which period there is only one EP election creating a keen competitive situation, which means that two years certainly pass without any political contest. The time of the present study of the impact area falls right in this period with a “shortage of elections.” It would by no means be justifiable to make comments about the elections analysed before in similar detail, so the research group considered the possibility of a specific study of the period of political competition in line with the period of research.

There may be some room for keen political competition even in the less eventful years of the political cycle, especially at the time of interim elections as well as in politically motivated referenda. Since the latest politically motivated referendum was held in 2008 – and only two referenda altogether in the past 25 years, which have previously been analysed – the research primarily focused on interim elections as a factor shaping political competition. The research group has found that the interim elections within an election cycle can be best examined in the political participation dimension, but the number of interim elections is somewhat random due to various uncontrollable factors (such as the death of a representative).

The other important aspect of political competition in addition to elections includes its primary subjects, the political parties themselves. Therefore, our research took into account the parties that have reached 1% social support. 1% social support is a “psychological barrier” in a legal sense also because the legislator has made state support subject to this degree of support. The research group found it important to represent this latter aspect, the amount of state support relative to the budget, because it is an important tool for promoting democracy through which the state supports the work of smaller parties that have real, measurable social support (at least 1%). The activity of the parties within Parliament is also important for political competition, which is best reflected by parliamentary interpellations on the basis of the findings that the research group has made. This is a tool typically used by the opposition, though it is utilised by the actual governing party as well. All in all, it can be established that interpellation is a tool for controlling the legislative power based on the representation of the people against the actual executive power, so its measurement is definitely justified in the Democracy impact area.

The Eurobarometer index for trust in parties presents the results of a representative questionnaire that is available both in a timeline and in an international comparison. According to the research group, the indicator for trust in parties is an important aspect of the political competition dimension, since it is a kind of qualitative measure of the main actors of political contest, the parties. The research group believes that this subjective survey would provide a more subtle and complete picture complementing the role of objective numerical indicators based on administrative data without making the entire dimension too subjective, so we found it justifiable to include this index.

The research group carried out a detailed analysis of the possibility of using new or novel indicators that could make the analysis of the impact area more innovative and forward-looking and which could increase the scientific value of the *Good State and Governance Report*. When studying political competition, the research group tried to measure the intensiveness of political competition itself, specifically on the basis of the fluctuations in social support for the political parties measured by the largest public opinion research agencies. This required a new background for methodology as we have not found a similar indicator in the international literature. In addition, partly in the context of the previous indicator, the research group examined the possibility of measuring the thematisation of public life, meaning to what extent a political party or topic can rule or thematise public discourse. Like previously, this is undoubtedly a novel and forward-looking research direction that the research group would like to take in the long-term, laying down its methodological foundations and including it in the indicators in the future.

### *Recommended indicators*

#### *Number of political parties in Hungary with over 1% social support*

Political parties are players of crucial importance in modern democratic states. They play the role of intermediary between society and the state, represent the interests and needs of the citizens, provide the opportunity and motivation to participate in public life, as well as constituting the most important channel for selecting political officials and filling political offices. 1% social support in the parliamentary elections is a “psychological barrier” in a legal sense also because the legislator has made the state support provided for the political parties from public finances subject to this degree of support.

#### *(Regular) state support for parties and party foundations (million HUF)*

State support for political parties is a solution for the financing requirements of political organisations in modern democracies that attempts to limit the advantage that parties with some kind of dominant position (e.g. a large membership and membership dues, wealthy donors, etc.) enjoy in the political contest. When measuring political competition, we need to examine this factor as one that is meant to promote real political competition through its balancing effect. In the study of the impact area, the research group used the aggregate amount of the state budget in the given year for the calculation of the ratio to the budget, since the amount spent on the parties and the party foundations is also part of the expenditure side of the budget.

#### *Number of questions submitted in Parliament and their distribution between the opposition and the governing parties*

This indicator is designed to measure the manifestation and the effects of political competitions within Parliament through interpellation. Interpellation is a tool typically used

by the opposition, though it is utilised by the actual governing party as well. All in all, it can be established that interpellation is a tool for controlling the legislative power based on the representation of the people against the actual executive power, so its measurement is definitely justified in the Democracy impact area. In the study of the impact area, the research group assessed the total number of questions as well as the distribution of the questions submitted by the opposition and the governing party. As for the questions submitted by the opposition, they represent a classical area for the opposition where they can express their criticism of the government. We can use the number of interpellations submitted by the opposition to assess the activity of political groups within Parliament. The interpellations submitted by the governing party are interesting because they can be used by the members of Parliament belonging to the same political group as the government to control the government with executive power in exercising their legislative power. We can draw conclusions on the activity of the parliamentary majority that is in sympathy with the political views of the government on the basis of the interpellations submitted by the governing party.

### *The indicator for trust in parties*

The Eurobarometer index presents the results of a representative questionnaire that is available both in a timeline and in an international comparison. According to the research group, the indicator *for trust in parties* is an important aspect of the political competition dimension, since it is a kind of qualitative measure of the main actors of political contest, the parties. The question asked in the Eurobarometer survey was this: “*To what extent do you trust institutions? Are you more or are you less willing to trust the political parties?*”

### *Output indicators of political competition*

This indicator measures the intensiveness of political competition, specifically on the basis of the fluctuations in social support for the political parties measured by the largest public opinion research agencies. We characterise the rivalry of parties<sup>8</sup> on the basis of public opinion polls<sup>9</sup> data by using three indicators: (1) Ratio of sure voters, (2) concentration of the parties’ popularity, (3) “advantage” of the most popular party. When calculating all the indicators, we used the ratio of sure voters.<sup>10</sup> The ratio of voters who are sure which party they will choose reflects how successful the democratic parties are in their fight to win the sympathy of voters. The higher this value, the higher the ratio of mobilised voters with a clear party preference. We assume that the higher the ratio of sure voters, the more successful the competition is between the parties.

<sup>8</sup> The indicators were set up with the contribution of the Measurement and Methodology Lab of the NKE ÁKFI.

<sup>9</sup> The party preference data were available for the period between June 2010 and December 2015, and the value used in the indicator was the mean of the surveys conducted by the four large public opinion research agencies (Ipsos, TÁRKI, Nézőpont, Medián).

<sup>10</sup> Sure voters are those who (1) will surely vote in the elections and (2) also have a party preference.

The concentration of the Parties' popularity was expressed by the normalised Herfindahl–Hirschman (HHI). The assumption is that the more parties participate successfully in the contest for votes and the more evenly the votes are distributed among them, the keener the competition is among them. The index has values between 0 and 1: if a single party has 100% of the votes, the value of the index is 0, that is, there is no competition. The “advantage” of the most popular party captures the difference between the most popular and the second most popular party with an indicator between 0 and 1 (the higher the values, the keener the political competition).<sup>11</sup> According to a theoretical assumption, the smaller the advantage of the most popular party against the second most popular one, the keener the political competition. If a single party receives 100% of the votes, the index of the value is 0, that is, there is no political competition. It is important to know that the indexes are all “output” indicators, which means that they do not address the nature of competition and its social, media and regulatory environment. Since the last two indicators are based on popularity measured by public opinion research agencies, it does not address aspects such as how popularity is turned into votes and how votes are converted into a mandate in Parliament. It is important to note that the Herfindahl–Hirschman index is primarily used in the area of economics and its practical application has received plenty of criticism (Roberts, 2014; Berger, 2014).

## 2.2. Political Participation Dimension

The government capability belonging to the political competition dimension can be defined as the government's promoting, in the interest of the democratic functioning of public life, one of the fundamental conditions for such: assuring participation in managing and influencing public matters and in political decision-making. This government capability can primarily be utilised through the development and regulation of the legal and procedural framework created for elections and referenda. Another fundamental element of the definition of democracy, in addition to competition, is political participation in the definition of common good, administering public affairs and decisions that affect the community.

Participation is also a necessary but in itself not sufficient condition in the influential concepts of democracy and it also plays some role in most of the surveys on democracy. As in the case of political competition, it can be established that participation is attached great importance and is discussed widely in the political science literature. We can see that political participation is closely related to the previous indicator, political competition. The number of venues for political participation is largely the same as those of political competition, so in this area the same events, parliamentary and municipal elections and referenda should be examined.

Parliamentary and municipal elections are the main scenes for political participation, which are also characterised by the cyclical nature referred to in the chapter on political

<sup>11</sup> The index is expressed by the inverse of the difference between the voting ratios and their ratio within the total number of votes. Inversion is necessary to ensure that the higher values represent more intensive political competition.

competition, and we also focus on interim elections – as a special feature – in our research this year when analysing political participation. The participation ratio in the interim elections in the different election cycles, as well as the differences between participation in regular elections and interim elections in the same cycle (and electoral district) can be a new factor in the analysis of interim elections, which means the analysis of the difference between willingness to participate in regular and interim elections.

When assessing the indexes based on subjective surveys, another Eurobarometer indicator, the *assessment of the functioning of democracy* should be noted. This index presents the results of a representative questionnaire that is available both in a timeline and in an international comparison. The European Election Studies *Voter Study* index also deserves attention, which is another questionnaire-based survey. One of its questions is: “*Have you participated in a political demonstration in the past 12 months?*” The research group found it important to include political participation outside elections in the measurement of the dimension as it obviously has an influence outside or in between elections, which is manifested primarily in political demonstrations.

Participation in referenda is undoubtedly a kind of indicator for political participation. However, since these data were analysed in detail previously and since then there has been no national referendum, the research group did not find it justifiable this year to keep an indicator that cannot yield new data and further characterise possible tendencies with respect to earlier research. At the same time, the number of referenda initiated could be an interesting aspect of the measurement of political participation in connection with referenda as it can provide an indicator for a need for some kind of political activity. The analysis of local referendum initiatives and the number of local referenda actually held can also be justified by the arguments raised for the assessment of national referendum initiatives.

### *Recommended indicators*

#### *Differences in participation ratio between regular parliamentary elections and municipal elections held in towns and villages with a population above 10,000 as well as in interim elections*

This indicator represents the difference in voter’s participation in the regular and interim elections in voting for individual representatives, as well as in the interim elections held in towns and villages with a population above 10,000 people (the subject of our analysis in the case of municipal elections is the election of individual representatives in the local government and the election of mayors). The assessment of parliamentary elections does not require any special explanation as they are the key challenges in political life.

The research group drew a line for municipal elections according to which the results in communities with a population below 10,000 people were not examined. The political reasons for this is that the ratio of party politicians in municipalities with a population below 10,000 people is much smaller than in towns with a population of above 10,000. It is typically independent candidates that receive a mandate in the municipal elections in communities with a population below 10,000 people, where local reputation and recognition are

more important, as has been shown in the past few decades, than party preferences in the municipal elections held in these communities. As a result, municipal elections provide less opportunity in these cases for political participation by the voters. On the other hand, the legal reason for the research group was that in towns and villages with a population below 10,000 people, a “small list” or individual list system is used that is different from the one used in larger communities, which means that the legislative system itself distinguishes between communities with a population above and below 10,000 people.

The calculation of the indicator is based on collecting the electoral districts where interim elections were held during the given cycle and comparing the average participation rate in these electoral districts with the average participation rate in the interim elections. If the value of the indicator is positive, participation in the regular elections was higher. The indicator separately represents the differences between the participation rates in the parliamentary elections and in the municipal elections held in towns with a population above 10,000 people, so we can examine the differences in participation rates separately in a timeline as well as in comparison to each other. The indicator can be used to draw conclusions on the degree of political participation between regular elections, which is especially important because this study was made right in the middle of the political cycle between two regular elections.

#### *The assessment of the functioning of democracy indicator*

The Eurobarometer index, the *assessment of the functioning of democracy*, presents the results of a representative questionnaire that is available both in a timeline and in an international comparison. According to the research group, this indicator is an important aspect of the political competition dimension, since it is a kind of qualitative measure of democracy based on political participation. One of the most important criteria of political participation is how satisfied the voters are with the functioning of democracy. In the representative Eurobarometer questionnaire, the following question was asked of the adult population entitled to vote: “*Are you totally satisfied, largely satisfied, not really satisfied or not at all satisfied with the functioning of democracy in your country?*”

#### *European Election Studies: Voter Study*

The European Election Studies *Voter Study* indicator also presents the results of a questionnaire, in which one of the questions was whether the respondent had participated in a political demonstration in the past 12 months. The research group found it important to include political participation outside elections in the measurement of the dimension as political participation obviously has an influence outside or in between elections, which is manifested primarily in political demonstrations. The index is also available in an international comparison. The reason for including it is the same as in the case of the previous indicator: as a subjective indicator, it supplements the index based on more administrative, more objective numbers. The 2014 representative questionnaire makes participation of the citizens in demonstrations comparable at an international level.

*Aggregate index for national referendum initiatives and approved referenda*

A referendum means the direct exercise of democracy, people's power, so we believe that there is certainly a good reason for measuring this direct form of exercising power in connection with political participation. As is well-known, in the period following the regime change, referenda have been held three times (in 1990, 2004 and 2008) at the initiative of citizens' signature campaigns, and twice (in 1997 and 2003) in the wake of parliamentary decisions. The number and ratio of people participating in the referenda are known and the data have been analysed previously. Since no referendum has been held since then, the repeated analysis of these referenda would not provide any new result, but the referendum initiatives can provide a picture about the need for directly exercising democratic rights and the activity of the people. This indicator is used to measure the direct exercise of power, one of the cornerstones of democracy. The indicator measures both initiatives – the need for the direct exercise of power – and the number of approved initiatives (no referendum has been scheduled since 2008).

*Aggregate index for local referendum initiatives and scheduled referenda*

A referendum is generally a direct exercise of democracy, the representation of the people, and a local referendum is the direct exercise of participation in local public affairs. Similarly to the previous indicator, we examined here the degree of direct exercise of power. This indicator measures the initiatives, amongst other things, which mean the need for the direct exercise of power. In addition to the initiatives, the indicator also measures the approved initiatives as well as the number and ratio of scheduled local referenda.

### **2.3. Social Dialogue Dimension**

In this dimension, we need to examine how social organisations, trade unions and non-governmental organisations (NGOs) can successfully communicate their opinions and technical proposals to politics and public policy decision making, thereby becoming part of decision making. Habermas (1993) claimed that one of the most important fundamental requirements of democratically organised states is social publicity: this is how decision-making can be made transparent and, in the last analysis, legitimate. Accordingly, the relationship among decision-making bodies of *politics* and *public policy*, as well as the actors in various social subsystems is based on public dialogue, where every party intends to have their views assessed and accepted by the public

*Domestic and international background of indicator creation*

A distinction must be made between social dialogue taking place in line with the requirements of the welfare state and social dialogue that goes beyond that. The former has a widespread and institutionalised set of tools that has been studied extensively, so our

research is deliberately limited to the latter one. Social publicity and public dialogue are an indispensable condition for any democratically organised state. This is why the Tavares report adopted on 3 July 2013, launched an extremely important debate, which includes measurable criteria for democracy – as a fundamental value referred to in article 2 of the Treaty on the European Union – that can be used in a uniform manner. With that said, it can be established that there is no dedicated international indicator that could be applied to the Hungarian conditions. There are some relevant international studies, however, that can be used as a good starting point for the creation of the *Good State and Governance Index* social dialogue indicator.

The standard question of the Eurobarometer survey (to what extent the opinion of respondents matters) is also important for our topic. The Eurobarometer survey regularly examines the ratio of people in each member state who feel that their opinion is taken into account in their respective countries. The indicator reflects the state of democratic exercise of power in the given state according to the citizens' opinion. The Bertelsmann Foundation Transformation Index (BTI) that examines 129 countries is significant. This research focuses on countries in which there are social and economic transformations taking place. The index is created from the average values of political and economic transformation processes. As for social participation, this research primarily studies whether the parliamentary elections that are considered to be part of social transition are free and fair. The democracy index of the Economist Intelligence Unit also measures social participation in decision-making processes along three main pillars: engagement in social debates, participation in elections and joining a party. Public dialogue is also addressed by the *Good Government Index* of Nézópont Intézet. This study examined the *Political Stability*, *Social Relations* and *Economic Perspective* areas. Of these areas, political stability and social relations can reflect the quality of public dialogue.

### *Recommended indicators*

#### *Number of non-profit organisations engaged in political activity or advocacy*

The social dialogue government capability is shown by the extent to which, during the course of the political decision-making process, the opinions and sets of technical proposals of the affected social subsystems and relevant organised interest groups, as well as non-governmental organisations (NGOs) can be articulated, appear in the public sphere, and become part of various *public-policy* and *political* decisions in the course of the decision-making process at the various levels of the political system. Required in order for such opinions to be expressed, and in order for them to make it from the representatives of society to the political decision-makers, are organisations that undertake the task of articulating and advocating interests. Obviously, it is important to note that the number of these non-profit organisations in itself does not provide any guarantee for the effective representation of interests but interpreted along with the other indicators, it can be used as a sound starting point.

*Number of people performing volunteer work at non-profit organisations engaged in political activity or advocacy*

The amount of volunteer work performed for non-profit organisations engaged in political, professional and economic advocacy is important data that show the citizenry's willingness to participate in the democratic system and its level of activism.

*State support for non-profit organisations engaged in political activity and advocacy*

State support for non-profit organisations engaged in political, professional and economic advocacy directly contributes to the functioning of the organisations, and thereby indirectly facilitates social dialogue, which is one of the basic elements of democratic political systems. It is important to note for the interpretation of this indicator that the support is not distributed evenly across the non-profit organisations engaged in politics and the representation of interests.

*Number of non-profit organisations actively participating in the policy analysis work of local (county or metropolitan) municipalities*

The non-profit organisations actively participating in the policy analysis work of local (county or metropolitan) municipalities are the cornerstones of the accomplishment of local social dialogue. Citizens and NGOs can generally be mobilised more successfully in local issues than in national issues. This is also due to the fact that according to the data of the National Elections Office, the voter turnout rate is generally higher for local elections than for parliamentary elections.

*To what extent the opinion of respondents matters*

The Eurobarometer survey regularly examines the ratio of people in each member state who feel that their opinion is taken into account in their respective countries. The indicator reflects the state of democratic exercise of power in the given state according to the citizens' opinion. The index is available both as timeline data and in an international comparison. Measurement is based on the subjective impressions of citizens, which means that it does not actually measure the quality of democracy but it assesses how citizens see it.

#### **2.4. Democratic Exercise of Rights Dimension**

The protection of fundamental democratic values and freedoms is an important part of government capabilities. Equal treatment and the operation of institutions that ensure and control the practical exercise of fundamental human rights and the provision of tools necessary for operation are an indispensable part of this through control mechanisms laid down in

international agreements. The creation of a set of conditions for the Good State, which means creating a political – national – community, is in the centre of legal and political thinking on the state where citizens' and human rights can be fully accomplished, thereby ensuring as much freedom for citizens as possible. Actually, this does not and cannot mean more than the creation of the public conditions for a good and happy life.

Paczolay (2013: 9) argues that the concept of the Good State is related to the idea of good law, which is materialised in its clearest form in a constitutional state, when the state is placed under the rule of law. Political science still owes the definition of rule of law, which means that the often mentioned basic value can be furnished with real legal content only indirectly. On the one hand, this may mean governance from the aspect of law and through law, and it may exhibit, on the other hand, a connection with some kind of an idealistic system of ideas (e.g. justice). Lamm (2009: 804) claims that it may also mean setting up the elements of state institutions as part of the system of state organisations and all the procedural forms that apply to these elements. Formally, a constitutional state means that any restriction on the exercise of public power takes place through rule of law; in other words, governance can be regarded as constitutional. In this sense, law is nothing else but an element that is ideal and indispensable in the organisational setup of the Good State.

Nevertheless, a material approach to rule of law goes beyond formal requirements and focuses primarily on content. This practically means nothing else but the enforcement of human rights laid down in international agreements. According to Raz (1995: 128–130), rule of law “almost always has a significant moral value” and its goal is to “reduce as much as possible, violations against freedom and dignity that may be caused by law when its goals are followed.” According to Mohl (1995: 32–36), this position entails that in an ideal case, rule of law restricts the individual freedom of citizens to a degree as small as possible and only to an extent that is absolutely necessary in order for the other citizens to exercise their freedoms. This can ensure *equality in law and make the exercise of freedoms possible*. According to Petrétei (2011: 143), this entails a basic requirement for the state to respect fundamental human rights at all times and unconditionally, and restrict the freedom of people only to an extent absolutely necessary.

In the sense of the above, rule of law and the constitutional state have no other goal than to promote individual freedom and respect its dignity. “The Constitution determines the basic institutions of rule of law and its main rules of operation, and it contains human and citizens' rights together with a set of guarantees.” (ABH 1992: 77, 80) Thus, the protection of fundamental rights should enjoy a privileged position in any public procedure and not only in those procedures that are launched by institutions focusing on the protection of fundamental rights, since each regulation in the various sectors and each legal institution should be derived from the obligation to ensure fundamental freedoms, which can be interpreted as the *raison d'être* of the state. Patyi and Varga Zs. (2012) claim that the true guarantee for rule of law is shown when special legal protection is necessary only as an exceptional legal tool. Paczolay (2013: 21) argues that the success of rule of law depends on the bodies operating it, which means that the entire system can only be justified by the stable operation of constitutional institutions that can meet expectations.

When defining the concept of the Good State, social expectations applying to the government should also be considered. In consideration of the fact that the measures of the government sector to stimulate the economy have a primary effect on economic processes

as well, the criteria of Good State cannot be laid down without knowing the essence of good governance. Accordingly, the operation of each government function (e.g. justice) and system of institutions should be aligned with the needs of each social subsystem and the exercise of power should relentlessly focus on the service of public interest and public good, which is indispensable in the separation of powers. Rule of law and legal protection can only attain their goals through the active participation of society. By furnishing society with a stronger role in the service of public interest, state functions can be developed along with legislation and legal protection. Several studies have addressed this topic but the most significant one among them was the REFGOV Project (Reflexive Governance in the Public Interest, Schutter-Lenoble, 2010). When interpreting legal security, several issues should be addressed such as the truth content of law as a means and trust in legal institutions; in other words, how law in terms of its content can meet the needs of the entire society.

Two main areas can be defined within the democratic exercise of rights: democratic legislation and democratic legal practice. The research group also attached great importance to the latter when examining the impact area. The application of law in Hungary is primarily the responsibility of courts. If a court establishes that the regulation to be applied is unconstitutional, it can submit it to the Constitutional Court for revision of conflict.

The authors believe that the democratic application of law should be based on the interpretation of regulations in accordance with the Fundamental Law. Accordingly, if the court acting in a particular case believes that the regulation to be applied is unconstitutional or its application is in conflict with the Constitution in the given case, it is extremely important that the case be submitted to the Constitutional Court for subsequent conflict check. The indicator “subsequent conflict check initiated by courts” provides a kind of mirror for the legislator by showing the extent to which courts found a particular legislation unconstitutional and, on the other hand, it can also show how conscious the judges are in their rulings in terms of the Constitution. The future goal of studies in this impact area could be to aggregate the indicator and include it among the proposed indexes, since its broader interpretation and the result of interpretation should be used in the entire legal practice only together with the other indicators.

Another indicator raised during the study of this impact area was the number of referendum initiatives approved by the National Elections Committee and the Curia, which could show the ratio of the resolutions of the National Elections Committee found unconstitutional by the highest court. This is an important index because the legal practice materialising through the resolutions of the Curia has an influence on legal consciousness, thereby determining the legal directions of referendum initiatives aimed at the direct exercise of power. The precise collaboration, consolidation and inclusion of the indicator could be one of the future goals of studies in this impact area.

### *Recommended indicators*

#### *Enforcement of economic freedom*

In economically free societies, individuals have a right for work, consumption, production or even investment; the workforce, capital and goods freely flow without any restriction. The Heritage Foundation’s Economic Freedom Index measures how the legal system of

the country guarantees economic freedom. The index considers, among others, the rules applying to the appropriation of private property and the observance of contracts made between private individuals and enterprises. It is important to note that economic freedom in itself does not reflect the quality of democracy – although the right for property is guaranteed in Arab dictatorships, we cannot talk about democracy in this case – but in Europe it is one of the fundamental freedoms, as private property – interpreted along with the other indicators – is the basis of a civic state. The indicator reflects in a percentage form how freedom of the economy is manifest in a particular country – the higher values stand for positive assessment. Economic freedom has not changed in Hungary in the past few years and its assessment is similar to that of the V4 countries.<sup>12</sup>

### *Trust in the legal system*

This indicator essentially reflects how transparent governance is. The Open Government (III.) dimension of the World Justice Project Rule of Law index has been the first attempt at measuring the government's transparency. The survey is based on the subjective impressions of citizens. The index ranks the different countries on the basis of the scores received in each sub-dimension. The government's transparency is measured in the following sub-dimensions: a) publicised laws and government data, b) right to information, c) civil participation) and d) complaint mechanisms.<sup>13</sup>

### *Rule of law and fundamental human rights*

The Fundamental Rights (IV.) dimension of the World Justice Project Rule of Law index reflects rule of law and the situation of fundamental human rights.<sup>14</sup> The index assesses rule of law and the situation of fundamental human rights through the following sub-dimensions: efficient execution of laws that ensures proper legal protection (4.1); enforcement of the right for life and personal security (4.2); the right for fair legal procedure and enforcement of the right of defendants (4.3); enforcement of the right for personal freedom and expression of opinion (4.4); enforcement of the freedom of conscience and religion (4.5); respect for the right of private life (4.6); respect for the right of assembly and association (4.7); and enforcement of fundamental labour rights, including the right for conducting collective negotiations and the elimination of forced labour and child labour as well as negative discrimination (4.8). Measurement is based on the subjective impressions of citizens and experts, which means that it does not actually measure the enforcement of fundamental human rights but it assesses how citizens and experts see it. The index can take values between 0 and 1 – higher values represent positive impressions.

<sup>12</sup> Available at: [www.heritage.org/index/book/methodology](http://www.heritage.org/index/book/methodology). Accessed: 12 September 2016

<sup>13</sup> Available at: <http://worldjusticeproject.org/open-government-index>. Accessed: 12 September 2016

<sup>14</sup> Available at: <http://worldjusticeproject.org/factors/fundamental-rights>. Accessed: 12 September 2016

*The right of assembly in Hungary – registered peaceful gatherings, marches and demonstrations*

The exercise of the right of assembly is one of the most important elements of the exercise of democratic rights through which citizens actively take part in democratic public life and express their opinions. This is manifest most clearly in the period between elections as the exercise of the right of assembly is one of the most important tools for expressing opinion in this situation, so it is definitely justifiable to measure it in the democratic exercise of rights dimension.

*Constitutional complaints submitted to the Constitutional Court and the number of court decisions repealed by the Constitutional Court*

With the Fundamental Law and the Constitutional Court Act entering into force, it became possible – alongside the type that could be submitted earlier as well against the application of laws violating the Fundamental Law – to submit a so-called “*genuine constitutional complaint*.” Thanks to the institution of genuine constitutional complaint, the Constitutional Court can now examine compliance between each court decision and the Fundamental Law and these decisions can be repealed if the Fundamental Law is violated. This power shifts the institution of the Constitutional Court closer to the power of justice. This indicator can be used to reflect the constitutionality of justice, which is implicitly related to the democratic application of law as a particular court decision can be democratic in as much as it is also constitutional.

## **2.5. The freedom of the press and freedom of speech dimension**

The most important tool for dialogue between politics, the government’s decision-making and society has always been the press, which has gradually become a factor of power through its ability to have a strong influence; moreover, as Cservák (2002) put it, it is often referred to as an independent branch of power, which is highly questionable in terms of constitutional law. In view of its significance as a branch of power, the press and the most important fundamental right relating to it, the freedom of the press cannot be neglected in the research into the quality of democracy.

As a theoretical founder, John Stuart Mill (1859) argued for an unlimited enforcement of the freedom of the press stressing that it is advantageous for the current government. It helps to avoid unpopular mistakes and can also strengthen its own truth, but more importantly, objective truth can come to the surface on the “*marketplace of ideas*” through value-creating dispute. The American Robert Dahl (1971) also took sides with the freedom of the press. He stresses that an informed society and alternative sources of news that have not been monopolised by political and governmental decision-making are indispensable elements of any democratic society. Freedom of the press as a key issue of national independence and sovereignty first emerged in Hungary in connection with the

1848 April laws (Act XVIII of 1848). Afterwards, similar demands were raised during both the 1956 revolution and the regime change in 1989.

When creating the indicator for the freedom of the press, the main issue is measurability, as in the case of political competition or political participation, precise data can be used to draw conclusions but in the area of the freedom of the press, no such data and surveys are available or they are not credible enough. Freedom of the press can also be measured by including only subjective external and internal indicators, since the media have economic, political and power functions. Although there are a few factors that provide objective results – ownership relations, for example, reflect the size of media empires – there are numerous factors that act against objective measurement: the aspirations of investors to generate profit, their political relations and expectations, the issue of self-censorship and so on and so forth.

It was suggested in the study of the impact area that several indicators with high prestige should be included separately, but the research group decided to sum up the two surveys in a single index in order to be able to get a more representative picture. We need to focus primarily on the political and economic press in our study of democracy in connection with the freedom of the press indicator. One of its possible measures can be the ratio of the political-economic press within the whole of the media, so the research group decided to measure it in the freedom of the press dimension as it also found important to represent, as in last year's report, the ratio of opposition media in the major news programmes. Furthermore, the research group found it important to assess, in line with last year's study, the "medium of the freedom of the press", the media itself in terms of the level of its infrastructural development and plurality from a quantitative point of view by measuring the number of enterprises.

The research group also considered including a truly new indicator with a novel approach this year for the Freedom of the press impact area. Access to information was suggested as a possible measurement criterion in the study of this impact area. There are several international examples for similar research, which can be characterised by the *right to information* as an attribute. Most of these indexes measure the circumstances under which the people receive specific information from the state (time span, costs), since this is an important aspect of the freedom of the press.

### *Recommended indicators*

Proportion of programmes focusing on news, current events, politics and economics as a proportion of total television and radio air time for the entire year (%)

We need to focus primarily on the political and economic press in our study of democracy in connection with the freedom of the press indicator. One of its possible measures can be the ratio of the political-economic press within the whole of the media. At the same time, the data take into account the amount of air time, not the viewership or listenership, and thus certain more popular channels carry the same weight as services reaching a small audience. It is important to note that the data represented here cover both commercial and public service channels.

*Proportion of media time allotted to opposition politicians as a percentage of total speaking time allotted to all political parties on the principal news programmes (%)*

The appearance of opposition politicians in the media is indispensable in a democratic state. They control the actual governing party, as well as offer a political alternative to the views of the governing party. Accordingly, the indicator is designed to measure the ratio of the opposition in terms of appearance. The interpretation of the data is slightly impeded by the fact that in the election year it is not entirely clear which parties count as the opposition.

*Aggregate freedom of the press index*

There are several indexes for the measurement of the freedom of the press. The indisputable advantage of *Freedom House's* Freedom of the Press index and the *Reporters without Borders' Word Press Freedom* index is that they look back to a longer time span and assess the practice of various countries in accordance with a uniform methodology, making temporal and spatial comparisons possible. These popular indexes with high prestige are often criticised for being based mostly or entirely on the assessment of experts, but these experts cannot be regarded as independent. The number of experts providing assessment is small and the values often reflect the opinion of a single person. Free press is conceptualised in a single step and is often put into operation inaccurately. The answer options often “capture” the opinion of experts on a ratio scale (such as using a scale of ten), while in the case of scales with ordinary numbers, there is no description or an explanation for answering the questions (or if there is one, it is not public). Therefore, although there is no doubt about the validity of the indexes, their credibility is questionable because the methodology cannot properly offset the subjective elements. As further criticism, it is also often mentioned that although the weighting formulas of the dimensions that create the index are known, the criteria they are based on are not. Experiences show that the weighting methodology in the case of these aggregate indexes has a smaller effect on the “best” and the “worst”, but the position of the “middle” can change significantly depending on the methodology. Several authors raise the question as to how the assessments assigned to each interval of the aggregate index can go beyond a “rule of thumb” approach. In order to reduce the problems resulting from validity, we combined the Freedom of the Press Index of Freedom House, the Word Press Freedom Index of the Reporters without Borders and the Civil Liberties sub-index of the Intelligence Unit Democracy Index of *The Economist* in such a way that the freedom of the press is indicated by a high value on a scale of one hundred. The combination of equally balanced indexes results in some kind of a robustness: although smaller changes cannot be interpreted, there is no doubt about more significant differences. We do not assign attributes (such as “free” or “partially free”, etc.) to each value of the aggregate index; instead, we use reference countries for the interpretation of the values. Thus, with its score of 94, Norway, which can be characterised as a liberal democracy, is used as a reference point for the interpretation of the 71–73 Hungarian value both in terms of legal regulation and legal practice. As a contrary reference point, religious and autocratic Iran can be used with its score of 18 in the aggregate freedom of the press index.

*The first sub-index of the Environmental Democracy Index,  
Right to information in the data in connection with environmental protection*

The Environmental Democracy Index measures the enforcement of the right to information in the area of environmental protection. This index assesses the possibility to have access to information in four topics in this area, which is becoming increasingly more significant in an international context: transparency, access, participations and fairness. Perhaps this is one of the most crucial issues of our times and the future.

*Number of enterprises engaged in periodical publishing,  
programme production and broadcasting*

This indicator measures the level of infrastructural development of the media and provides a quantitative factor for the assessment of the freedom of the press.

### **3. Summary**

Our research group focused simultaneously on permanence and continuity in its study carried out in the Democracy impact area, in which it also reflected on several timely issues that were specific to a given period. Both factors are indispensable for carrying out high-quality research in the impact area. If we were to change the indicators of the impact area radically every year, the research would become boundless in the long term, since we would not be able to measure processes from the distance of several years using the same indicators. According to the research group, all this should not, however, result in a rigid approach and the possibility of continuous development should always be borne in mind. Democracy is a special impact area because due to the cyclic nature of elections, there are periods – such as the time when this paper was written – when we cannot really make new claims by taking into account the traditional elections and viewpoints; the most we could do is analyse again what we have already looked into. This would obviously have a negative effect on our research as it would deprive us of its essence, its novelty.

Our research group separately addressed the issue of international outlook when we analysed the indicators. While well-founded research should obviously place the results of our country in an international context and address processes taking place in other countries of the world, we cannot ignore the fact that by choosing international examples randomly, we might make the discussion of international comparisons endless and it would also raise the question as to what set of uniform criteria is used to select the states that Hungary is compared with. In the international outlook, the research group studying the Democracy impact area primarily focused on the group of V4 countries (Hungary as well as Slovakia, the Czech Republic and Poland). The V4 countries were chosen because of their common historical and social roots. The research group believes that the common socialist past, the democratic transition and the fact that the regime change as well as accession to the EU and NATO took place at the same time provide a strong basis for an international comparison of the results in this impact area.

The research group carried out a detailed analysis of the possibility of including new or novel indicators that could make the analysis of the impact area more innovative and forward-looking and which could increase the scientific value of the *Good State and Governance Report*. The research group discussed in detail that there is a possibility for unusual viewpoints in the political participation dimension as this is the area most exposed to the cyclic nature of the election system. According to the authors, the interim election, the measurement of their interim nature is closely related to the foundations, while it can provide fresh data even in years when there are no regular parliamentary or municipal elections.

When studying political competition, the research group tried to estimate the intensiveness of political competition itself, specifically on the basis of the fluctuations in social support for the political parties measured by the largest public opinion research agencies. This required a new background for methodology as we have not found a similar indicator in the international literature. In addition, partly in the context of the previous indicator, the research group examined the possibility of measuring the thematic trends of public life, the various current issues, meaning the extent to which a political party or topic can direct or thematise public discourse.

When reviewing our public political system, the research group also found several new aspects in the democratic exercise of rights dimension that should be assessed, but in the interest of continuity, the research group believes that new aspects should be gradually introduced in the set of final indicators. The authors believe that the democratic application of law should be based on the interpretation of regulations in accordance with the Fundamental Law. The indicator “subsequent conflict check initiated by courts” provides a kind of mirror for the legislator by showing the extent to which courts found legislation unconstitutional and, on the other hand, it can also show how conscious the judges are in their rulings in terms of the Constitution. The future goal of studies in this impact area could be to aggregate the indicator and include it among the proposed indexes, since its broader interpretation and the result of interpretation should be projected to the entire legal practice only together with the other indicators. The freedom of the press and the social dialogue dimensions also have their own characteristics, but in the interest of continuity, the research group did not radically change the indicators and produced very different the results compared to the initial study conducted in the previous year. The research group set up the indicators by considering these aspects carefully, which can provide a sound basis for long-term analyses in the interest of continuity and, on the other hand, they were enriched by new aspects that respond to timely issues in line with the special features of the period under research.

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# Effective public administration

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## 1. Introduction

Conceived in 2013, the Good State and Governance Working Group (GSRW) initiated a conceptual framework with the aim of examining the measurability of good state and governance (Kaiser–Kis, 2014). This stated aim in itself raises numerous questions; about the justifiability of such research, about the focus of the relevant measurements, and about the circumscription of the conceptual framework itself. The predecessor to the present study was the work published in 2014 (Cserny et al., 2014: 233–266), which laid the foundations of measuring methodology in the impact area of effective public administration, defined the object and focus of measurement, and proposed a set of relevant tools, thereby permitting the phase of formulating indicators to begin. It was within the framework of the latter that the *Good State and Governance Report* was published in 2015, with specific indices and structural and formal parameters valid for the entire impact area. The 2016 edition of the *Good State and Governance Report* appears simultaneously with the present volume of studies, in practically identical form, representing a genre of public policy expertise – also popular abroad – which aims at disseminating certain findings of scholarly research in a somewhat simplified, easily intelligible manner free of the rules that pertain to scholarly publications.<sup>4</sup> Similarly to the other chapters of this volume, here – as a kind of background study – we would like to provide a scholarly narrative to the measurement data and results pertaining to the area of effective public administration. The aim of the study, therefore, is to share the research questions and corresponding answers (thesis initiatives) which have been formulated in the course of the research, providing space for presentation of the methodological challenges and the considerations (constraints, possibilities) under which operationalisation can be carried out. Finally, it is important to emphasise that the research project is not complete – and that this has two important implications for the Reader. On the one hand, as a quasi-progress report on ongoing research, the intention is not to reformulate observations that have already been made, but to firmly build on earlier hypotheses, in certain

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<sup>4</sup> The publications closest to this particular genre are perhaps the biannual Bertelsmann Transformation Index and Bertelsmann Sustainable Governance Indicators issued by the Bertelsmann Foundation every two years. Also taking part in the elaboration and fine-tuning of individual details of the study were (in alphabetical order) Anita Fibinger and Zoltán Tarpai.

cases rendering these more specific or raising counterpoints. On the other hand, by its interim nature, new questions are raised with respect to the performance and capacity of public administration, the answering of which may be the task of the next milestones in the process.

At the same time, the latter warning we immediately aim to remove by naturally referring back in the introduction – as a standalone statement – to the most important basic principles which the measurement programme took as its starting point. While in the earlier study we laid down the principles for formulating indicators in the absence of empirical data, on this occasion we return to tackling the methodological challenges with experience of measurement in our possession. In close correlation with this, it is once again worth opening up the conceptual framework, to examine what exactly we may mean by *good governance*. Other chapters in the study review the context of specific measurement results (while declining, within the current framework, to analyse either the values or their tendencies), while touching separately on the possibilities and limitations of the international comparisons and surveys of social perceptions which appear as a new element of the 2016 edition of the *Good State and Governance Report*.

## 2. The story so far

Research into the impact area of effective public administration began first and foremost by outlining the conceptual framework. In this regard, we elaborated the following three principal precepts:

1. Taking the structure of the Good State research project as a starting point, where state capacities (functions) were defined as separate individual impact areas, we determined public administration in the narrower sense of “administration” serving the aforementioned functions in a horizontal fashion akin to an infrastructure. It follows from this “intermediary” role that the processes of public administration primarily improve the quality of public administration, enabling other actors to carry out their functions (and for this reason we consistently apply the concept of *administration*, rather than *government*) (Cserny et al., 2014: 233).
2. While designating a narrower range of interpretation in the case of public administration, we applied a broader concept with respect to efficiency, which not only examines the values of expenditures and results projected onto one another, but analyses every aspect of the performance of public administration that can be used to describe the achievement of the goals and purpose of public administration (within the above-mentioned parameters) (Cserny et al., 2014: 234–235).
3. As an analytical framework, we accepted the system of goals and interventionary logic of the current public administrative reform programme, reasoning that a reflection of the image of public administration perceived by the prevailing body responsible for the development of public administration (the government) might serve as a valid and legitimate reference framework to quantify conformity to the intended purpose of public administration (Cserny et al., 2014: 236).

Starting from these basic premises, we formulated the measuring programme, determined the goal and content of individual measuring areas, and selected individual indicators

(Cserny et al., 2014: 258–266). At the same time, in this phase, too, there was no doubt that the practical aspects and system of requirements necessary to produce the *Good State and Governance Report* (meaning the retrospective availability of indices for five years, the need to be able to read tendencies, and the reliability of data sources) would overwrite the directions set in the study. Even so, the discrepancy between the established (desired) measuring principles and their realisation in practice focuses attention on two important aspects (which also serve as an answer to the scepticism affecting the good state/public administration inquiry). On the one hand, the target-oriented “hunt for indicators” examines the suitability of every individual example (its relevance, value-bearing character and validity), and this also may have practical repercussions on the shaping of the analytical framework. On the other hand, it clearly sheds light on areas neither the state nor any other actor measures, even though these would provide significant information with respect to the quality of public administration.

The above-mentioned formation of the analytical framework led us to a re-examination of our earlier basic premises, prompting us to harmonise them somewhat with our set of indicators used in the *Good State and Governance Report*. At the same time, it is important to emphasise that such an inductive formation of the conceptual framework does not ascribe normative power to the indicators (so that a phenomenon does not become determinant in terms of qualifying public administration just because its measurement is included within the scope of the examination). The following chapters take into consideration these dilemmas.

### 3. Methodological questions and answers

#### 3.1. Back to the problem of measurement...

In connection with the Good State research project, innumerable mentions have been made of the unquenchable human desire to measure or compare things to each other, which cannot be avoided in public administration either. Both scholarly and practising professional curiosity has long devoted heightened attention to the range of problems related to the performance and productivity of public administration.<sup>5</sup> Whereas previously we were content with the observation that measuring the performance of public administration is currently “not at a stage where precise judgements can be made” (Boyle, 2007: 9), on this occasion we have also examined the reasons for this challenge.

Measurement and comparison in all cases presuppose the linking of two elements: the phenomenon we are measuring, and a unit to which we are comparing it. These may derive from experience, common sense logic, or a combination of opinion, expectation and need, or they may even be random – and eventually the standards for the comparison emerge (such as, for example, the 50 km/hour speed limit, “room temperature,” or the “90-60-90” ideal of beauty). The aforementioned examples have two common features:

1. a perfectly defined phenomenon, the variants of which are known or predictable; and

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<sup>5</sup> The publications of Dubnick (2005), Ingraham (2005) and Bouckaert–Halligan (2008) provide an excellent basis for review of the concepts of performance. The present status of research into measuring performance is presented by de Lancer Julnes–Holzer (2008).

2. a generally accepted standard for comparison, which can be applied in every possible (or at least relevant) instance. At the same time, it is evident from the listed examples that these are by no means exact categories, as the standards typically presuppose a value choice and a certain degree of deliberation, which may change depending on location and time (taking the above examples, the 50 km/h limit still offers a sense of security, a complete life is not assured below the subsistence level, and according to the subjective nature of beauty – to use a Kantian idea – “the beautiful is that which pleases universally without a concept,” and so forth). It often happens that the object of the measurement itself serves as the standard for comparison; for example, in the case of GDP, where decline or growth over time carries negative or positive connotations, while a stagnation in the rate of inflation enjoys a positive assessment. The phenomena of economic growth and inflation per se are measurable in quantitative terms, using common reference units (monetary values), and this makes a chronological or geographical comparison homogenous and consistent. At the same time, in complex systems such as public administration, functioning with heterogeneous goals and producing many different outputs, there is no generally accepted “equivalent value,” so that standards and indicators are much more difficult to determine.<sup>6</sup>

As we shall see, differing goals endeavour to answer differing needs in a variety of ways, and this presupposes various (evaluative) perspectives, focuses and, ultimately, reference frameworks. With respect to public administration, not only must we avoid the narrowly focused inquiry known from the parable of the blind men and the elephant (since we cannot reach a complex finding from knowing only one individual segment of the examined object), but we must also draw attention to the danger of ignoring differing perspectives. Various evaluative perspectives can also be identified in the case of public administration: tax-paying citizens, customers making use of services, decision-making governments or European Union institutions each make different demands on public administration, and these expectations envision differing – and often conflicting – goals. Thanks to this conflict of roles, standards cannot be measured on a one-dimensional, unilinear scale, but it is also important to observe – in the context of our task – that the selection of evaluation factors cannot disregard subjectivity either (Oszlak, 1973: 4).

In the absence of such crystallised standards, however, the everyday evaluation of public administration is often reliant upon emotional, rather than scientific or rational considerations, with the premises for evaluation frequently taking the beliefs and individual perceptions that feed public opinion as their starting point (as a substitute for measuring standards). The ingrained nature of public administration in society is naturally beyond dispute with the advance of the state into various areas of life experienced in the 20<sup>th</sup> century, and for this reason its perception by society is by no means without interest. However, the phenomenon whereby the epithet *bureaucratic* has been invested with negative connotations in the common vernacular clearly indicates how individual experiences, unfulfilled social needs and the frustration arising therefrom have been extrapolated into a socially accepted truth, creating the image of “inefficient public administration.” In fact, according to views

<sup>6</sup> In this regard it is worth mentioning various attempts from public administration in practice or even institutionalized rules and standards such as, for example, the EU’s geographical delimitation tied to the populations of its NUTS regions, as well as the mandatory formation of joint local government offices below certain population numbers.

accepted widely irrespective of the region of the world, “the costs of maintaining bureaucracy are excessive,” “the organisation of public services is low in efficiency,” and “the administrative burdens on customers are high.” However, in order to be able to measure the extent of the “overspending,” to determine how “burdensome” or inefficient public administration is, we must proceed towards the definition of measurable standards. To transform common beliefs and suppositions accepted as facts (or the opposite of these) into scientifically proven truths is no simple task. The question thus presents itself once more: *How can we conceptualise efficiency within the context of the performance of public administration?*

Below we summarise the problems of measuring performance in order to “embed” them within the conceptual frameworks and methodological considerations presented in the following sections.

1. Looking at public administration as a whole, there is no standard which would allow a one-dimensional, linear assessment, while standards established for individual institutions tend to possess normative power, rather than a descriptive function aiding comparison.
2. The wide-ranging functionality of public administration demands a variety of administrative roles, each with independent goals, which may lead to conflicts of interest and *trade-off* situations. Consequently, the selection of a perspective for evaluation always requires careful deliberation, but is a necessarily subjective choice.
3. It follows from the above that most international measurements prefer to channel social perceptions and public opinion in order to ensure that the complexity of public administration is concentrated and condensed on the receiving side (Boyle, 2007: 10). However, such measurements, by virtue of their distortion due to the above-described presumptions and beliefs are – in our opinion – little suited to “calculating” the quality of public administration on a comparative scale.<sup>7</sup>
4. Another distinctive feature of public administration – in certain segments – is its “active passivity,” a function of availability in which public administration consumes significant resources precisely to attain the goal that “nothing should happen.” In this case, the achievement or result is to avoid symptoms of so-called *bureaucratic incapacity*, a phenomenon that encounters further difficulties in its measurement (Hajnal, 2008: 32).
5. Finally, public administration as a common good in itself pulls the ground from under the feet of “tried and tested” methods of measuring the performance of the economy: the things it supplies cannot be organised on a market basis, since the initial costs are too high, while the direct market profit that can be realised is too low; and no one can be excluded from the consumption of public administration (although this is obviously not even the state’s goal), since the use of services provided from public money is possible for every citizen. The other characteristic of public goods is that their consumption is non-competitive, so that the consumption of one individual does not reduce the consumption opportunities of other users (Rosen, 2005).

<sup>7</sup> In his study, Christopher Pollitt is sceptical about the genuine benefit of international rankings, and whether they can be used as the basis for any decision (Pollitt, 2005), while Van de Walle draws attention to the dangers of subjective assessments, which tend to reflect the *popular image* of public administration, rather than a description of its actual functionality (Van de Walle, 2006).

### 3.2. Focusing measurement – conceptualisation

In this chapter we shall attempt, via a logical series of steps building one upon another, to build (reconstruct) the methodology that led to the selection of indicators in the impact area of effective public administration. In doing so, we will decide our perspective and what we would like (or not like) to see in the picture, before adjusting the focus and making snapshots according to the following.

*The first step: What should we not measure?*

In this phase, we look at a number of aspects in turn which, although strongly influencing the performance of public administration, we do not include in the scope of the inquiry for a variety of considerations. The broader environment of public administration naturally has an impact on its performance, so that it follows that the character of the politico-administrative system, the role of the state in society, economic conditions and opportunities all count as key factors. The main problem with these factors is that they are not constant either in space or time, changing continually (cyclically), and administration endeavours to adapt to this. Let us look at these in turn.

If we examine *politico-administrative systems*, the continuous pulsation of the institutional system is clearly palpable with respect to state (public) tasks: we can observe the swelling and pruning back of institutions, and the expansion and narrowing of levels of administration. Increasing institutionalisation is due to twofold pressure on the institutional system, on the one hand in the handling of new affairs as they arise, and on the other hand in the expansion of public services. As a consequence of this expansion, a condition of overburdening sets in, leading to the appearance of a constant endeavour to detach or pass down functions to lower administrative levels (Ágh, 2002: 163–168). Institutions are good because they ensure stability and efficiency, but precisely for this reason they sooner or later become too rigid, and thereby – under altered circumstances – become obstacles to efficiency, and ultimately to change. From time to time, therefore, the rigidity of institutions must be loosened to ensure greater efficiency; indeed, institutions must be eliminated or dismantled to aid progress – and this supplies the need and internal driving force of cyclical movement (Colomer, 1996: 16).

*The role the state plays in society* is explicitly connected to the preceding factor, since this institutional context has definitive national characteristics, and the conflict between the big and small (minimal) state has been the subject of constant debate in recent decades. And yet the real dilemma is not about the size of the institutional system, but rather its capacity to influence society: an overreaching, interventionist state overburdens the institutional system and (despite its large size) results in a weak state. The demand for a cheap state, meanwhile, is only legitimate if it does not necessarily mean a small state, but is closely connected with the most important features of a strong and *effective state* (profitability, efficacy, efficiency) (Ágh, 2002: 179–184).

The *economic conditions* in a given country circumscribe fundamental limits and open up opportunities for the given government to set the parameters of the administrative mechanism, although the setting of the optimal operational dimensions remains a challenge

even when there are ample available resources to maintain a larger state apparatus and institutional system. And yet it can clearly be seen in international surveys that there is no correlation between a given country's state of economic development and the size of government expenditures in proportion to GDP, suggesting that the greater a national economy's performance, the lower the need for robust administration (Kirchner, 2011).

For us, the above factors provide the following *lessons*:

1. According to the comparative study of public administration, certain signs of an adherence to models can be discerned in a country's public administrative system, drawing nourishment from partly historical, partly cultural, and partly behaviouristic roots (Kuhlmann–Wollmann, 2014: 44). These public administrative models naturally operate different institutions in different ways, so that for our part, we do not deem it expedient to formulate evaluation criteria in which the chosen administrative model, as a dependent variable, impacts the goal of the institution and the direction of the evaluation as a consequence. To be specific, we do not wish to include within the scope of the evaluation indicators otherwise popular in international surveys such as, for example, the headcount in the public administrative apparatus, the size of staff or even its proportion within the entire sphere of employment, or the amount of (central) government expenditures in proportion to GDP; and we also disregard all information that might carry model-dependent (and therefore biased) information with respect to any subsystem of public administration (e.g. open or closed system of public services, decentralised or centralised administrative body, politico-administrative, dual or monistic system).
2. The above-described variability of the institutional system (added to the “freely” exercised policy of prevailing governments to transform institutions and organisations, which can also be felt in the far shorter term) would by its nature fail to make evaluations that take a given structure as their starting point stand the test of time. For this reason, it is worth devoting greater attention to operations and outputs, which can be examined on a more stable basis due to the somewhat more sluggish turnover in the volume of state (public) tasks. During our research, therefore, we dispense with investigations pertaining to details of the internal operational order of the system of public administrative organisations, or to the level of development of individual organisations.
3. An evaluation independent of models, however, does not signify neutrality of values. As we established in the previous chapter, measurements must be goal-oriented, with goals that span the domain between the actual and desired state along a scale where any shift assumes a qualitative change in either a negative or positive direction. In this regard, it is worth citing Hood's theory of value, whereby every administrative system carries so-called sigma, theta, lambda values. In his investigation, he found that while the English-speaking countries primarily see the outcome as the main measure of value with regard to good public administration, Scandinavians favour a transparent and open process, while Germans highlight the stability and responsivity of public administration (Hood, 1991). From our point of view, this is interesting because, even in the case of national administrative systems that are otherwise converging, we see that among all the innumerable values, certain values dominate, with the factors in good public administration each carrying different weight.

*The second step: What perspective should we choose?*

In the previous step, we stripped our object of investigation of the measuring dilemmas which, in our opinion, might result in distortions that are difficult to control in determining the quality of public administration. In this step, we carry out an identification of the functions of public administration in the narrower sense earlier discussed.<sup>8</sup> We can list the following main groups of activity within the profile of the highly multifaceted, multifunctional administrative system: (a) preparation of public policy decisions; (b) implementation of decisions; (c) provision of administrative services; (d) enforcement of claims in the role of an authority; and (e) maintaining the administration that serves the foregoing. These groups of activity themselves reveal the disparate roles and related disparate dependences: what society (as customers and taxpayers) expects from administration is different from what is expected by the government/political leadership (as the head of public administration), the European Union with its own distinctive, multi-level governance and public policy model, or – as the case may be – a foreign capital investment firm.

Countless examples could be cited of the conflicting nature of individual roles, and it is not difficult to recognise that the various target groups sometimes lead public administration into “conflicts of role.”<sup>9</sup> Naturally this does not exclude the possibility of finding room for several perspectives side by side in the measuring system; however, the “end result” of preparations and implementation connected to the governance of public policy – i.e. the performance of public services and the major supply systems – has already undergone evaluation in the other impact areas, so that here we have placed the emphasis more within the reference framework of individual and social needs (with the focus on public administrative performance, rather than the performance of the public sector per se). The perspective therefore represents the viewpoints of customers and taxpaying citizens (and partly also enterprises), even when these may also assume competing interests (for example, an improvement in customer services may receive a positive assessment from the customer’s perspective, but the high costs of maintaining it may be unfavourable to the taxpayer; or vice versa, the simplification of a process may result in more cost-efficient administration, but may also endanger the legal security or predictability of the process, the latter proving disadvantageous to the customer).

*The third step: Sharpening the picture*

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<sup>8</sup> An alternative to the functional approach might be an approach according to principles, examining the considerations of principle that public administration must bear in mind in carrying out its tasks and fulfilling its role.

<sup>9</sup> The social basis for the state’s “diet plan,” under the ideological guise of new public management (NPM), was pressure on the middle classes. Middle-class groups protesting against growing tax burdens and placing self-reliance to the fore ahead of social justice demanded a small and cheap state, since they found tax burdens excessive and were able to pay for privatized services. However, if the state excludes marginal layers of society and only forms business relationships with citizens, then it takes on too many conflicts with poorer social strata, inviting an even broader and deeper social conflict. If, on the other hand, it furnishes public services (for free) to too wide a circle, then it comes into conflict with the middle class for creating an expensive and insufficiently efficient government (Ágh, 2002: 202).

During the previous steps, we delineated the concept of public administration we would like to measure. Here, we must decide what we evaluate, and what we disregard on this occasion, from the perspective of the *nature* of public administration. We have already discussed in detail how we can grasp quality in the form of *performance* of some kind or another. Whether dealing with political or administrative systems, it is customary to evaluate the existence of a system of formal and legal institutions; however, partly due to the characteristics of advanced democracies (i.e. the complete development of their institutional systems), and partly due to the constraints mentioned in subchapter 3.1, evaluators are compelled to retroactively measure the performance and operability of formal institutions. This strategy is all the more worthwhile choosing because agreement does not necessarily exist on the beneficial nature of formal institutions, so that the fact that preliminary impact studies and analysis are compulsory within the legislative process does not in itself necessarily say anything about the quality of legislation. The given institution, and through this the system as a whole, is therefore legitimised not by its formal existence, but much rather by its operation. The system of public administration likewise legitimises itself through good operability (*performance*) on the basis of the appropriate criteria. Before breaking down these criteria, it is important to note that in public administration formal and informal institutions and processes are created to perform its functions, but here we must place these processes outside the scope of measurement, because their scale can only be estimated (latent).

We approach the main criteria of good public administration from the chosen perspectives:

1. From the point of view of the customer, the existence and quality of output has priority, provided aspects of performance and operability are placed to the fore (output legitimacy). The main question here is how much public administration is able to carry out its functions and perform its role.
2. From the taxpayer's point of view, on the other hand, input legitimacy is of primary importance, as here the principle of economical operation arises, and we seek to answer the question of how public administration "makes good use" of the resources entrusted to its disposal.

As a result, the goal/means logic of the two approaches together provides a picture of a workable public administration that is able to organise its resources efficiently. In the specialised literature on the topic we often encounter the concept of administrative capacity,<sup>10</sup> which within the concepts of governmental and public policy capacity – albeit not under an entirely matching definition – indicates the sub-capacity aimed at the successful preparation and implementation of public policies. Within the conceptual framework formulated in this chapter, and in the case of the object of our measurements too, what is actually under the microscope is the capacity that enables the organisation of processes that produce a result in keeping with external expectations and the organisational and personnel resources necessary to achieve this. At the same time, while the category of efficiency in (public) policy is no longer the terrain of administrative-bureaucratic capacity, it is beyond doubt that the former is determined by the latter.

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<sup>10</sup> On the evolution and theoretical creation of the concept of administrative capacity, see Addison (2009).

Summarizing the present chapter, we can state that the impact area of effective public administration is designed to measure the administrative capacity of a good state from the perspective of society and individuals, on the one hand drawing attention to the operability (performance, output) of the administrative mechanism, and on the other hand to the economical use of resources (input). The stripping down of the measurement domain as detailed above undoubtedly provides a “sterile” reflection of the quality of public administration, while trusting that non-analysed aspects of the public administration category that carry broader significance will be evaluated within the framework of the other impact areas (Democracy, Welfare, Competitiveness, Sustainability, Security) which are supported horizontally by the present impact area.

We specifically translated the above in order to upload the unified measuring framework logic of the Good State and Governance Index, as summarised in *Table 1*.

Table 1  
*Unified measuring framework logic of the Good State and Governance Index*

Perspective		Dimension	Focus	
customer	taxpayer		performance, operability	resource management
×		Accessibility	×	
×		Customer burden	×	
	×	Resource efficiency		×
×	×	Preparedness		×
×	×	Satisfaction (perception)	×	×

*Source:* designed by the authors

#### 4. Snapshots – operationalisation of measurement

The next phase saw the selection of the indicators necessary for the Good State and Governance Index (given the inadequacies in the somewhat sparsely available supply of reliable data, we can easily call this step the “hunt for indicators”). Here we essentially carried out a kind of aptitude test of the possible indicators. The main function of this aptitude test was to ensure that the indices (quantified data) could be transformed into information units of some kind that are descriptive of quality and carry values. The testing took place according to the following aspects emerging in sequence.

1. In the course of the *relevance test*, we examined whether the given indicator is capable, in the context of the given capability or dimension, to accurately describe the phenomenon and make it measurable. (For example, we did not regard the proportion of own revenues or investment volume of the public administrative branch as relevant from the point of view of the quality of public administration.) During the relevance test we also incorporated a complementary logic to ensure that the result we obtained from the evaluation and measurement was as direct as possible,

- i.e. ensuring that the causal step (interpretation) that needed to be taken between the goal of measurement and the measured phenomenon was as small as possible. In this way, for each given phenomenon, we favoured so-called *outcome* indicators revealing the utilisation and practices of the target (social) group (e.g. the proportion of those using advanced e-administration services). In the absence of these, we made do with so-called *output* indicators showing the possibilities and supply (e.g. the number of services supporting the administrative process). Finally, in the absence of reliable output indicators (or because the phenomenon to be described required it), we also employed *input* indicators (e.g. the proportion of ministry officials with academic degrees). It should be noted that in international measuring systems – partly due to the absence of adequate output indicators – it is also fashionable to evaluate the test object based on inputs (quality of resources, appropriateness of their combination), and this is often justified by saying that with low-standard resources, only a low-standard output can be produced (Boyle, 2007: 11).
2. The essence of the value test is that we did not merely seek descriptive data, but also data in which shifts or tendencies clearly indicate whether these contribute to the good state/good public administration, or if they act against it, damaging public administrative capability. The goal is to examine whether the value of the indicator – or even more so, any change thereof – carries an identifiable message with regard to the quality of public administration. Numerous – otherwise relevant – indicators fell by the wayside or became unsuitable on this basis, lacking “normative power” in this context (for example, in the case of the pool of computers in public administration or expenditures on IT services, value added to the measurement is hard to establish).
  3. Finally, within the framework of the *validity test*, we examined whether longitudinal (retrospective for five years), reliable time series data or data sources are available with respect to the given indicator. It should be noted that in both the 2015 and the 2016 editions of the *Good State and Governance Report* we did not rely merely on official statistical data supply or data sources published elsewhere, but also carried out our own indicator calculations in given cases, either by collecting primary data and measurements, or by recycling other measurements (for example, in the case of the average proximity of government windows).

Table 2  
*Elements of the set of indicators*

<b>Dimension</b>	<b>Input indicator</b>	<b>Output indicator</b>	<b>Outcome indicator</b>
Accessibility	–	2 pc	3 pc
Customer burden	2 pc	1 pc	2 pc
Resource efficiency	3 pc	–	2 pc
Preparedness	4 pc	–	1 pc
Satisfaction	1 pc	–	4 pc

*Source:* designed by the authors

Naturally, the elements of the set of indicators obtained as the result of the above might in themselves provide a basis for further professional debate and discourse, and – primarily due to the reciprocal effects of empiricism and the conceptual framework – inconsistency is discernible on a systemic level in a way not unusual in the intermediate phase of research, prompting the members of the research working group responsible for the present study to carry out further fine-tuning and polishing.

## 5. International outlook connected to the dimensions of the impact area

The international Organisation for Economic Co-operation and Development (OECD) has carried out comparative measurements since 2009, with respect to the governmental structure, operation, results and good practices of member countries, publishing its findings every two years in the study *Government at a Glance* (GaaG). The GaaG studies offer an outstanding opportunity for comparative analyses between member countries, since a precise ranking of member countries with respect to the individual areas under investigation can be determined based on uniform measurements and using identical methodology. The average results of the measurements provide an overall picture of the strengths and deficiencies of government operation at the European level. Last but not least, they contain numerous indicators which the member countries themselves can develop further with a view to gaining a deeper knowledge of the given area of operation.

Below we present the OECD indicators employed with respect to the dimensions of the impact area of effective public administration. No sharp boundary lines can be drawn between the indicators in individual areas, and in many cases individual indicators can be interpreted in several dimensions. For example, physical distance from an institution providing public administrative services can be interpreted in the context of accessibility on the one hand, but on the other hand also in the context of customer burden, in terms of the time taken to travel to the administration location.

### 5.1. Accessibility dimension

The indicator of *Use of e-government services by individuals and businesses* examines three levels of citizens' and businesses' online interaction with public administrative bodies for citizens aged 16–74 and enterprises employing more than ten people, comprising: 1. online information collection; 2. downloading of online forms; and 3. online submission of completed forms to a given authority/public service institution.

The indicator examines *Financial and geographic access to healthcare* in an inverse manner, meaning that it asks about unfulfilled/unrealised medical/hospital treatment needs and the causes thereof. The OECD survey approaches *Access to tertiary education* from the expenditures side, examining and comparing the total direct expenditures of those participating in tertiary education. Indirectly linked to this is the indicator of *Access to judicial systems and legal information (Serving citizens)*.

The 2013 GaaG, beyond the above, also examined the accessibility and quality of public administrative services in terms of the *affordability* of services, including private

healthcare costs (i.e. those not covered by insurance), the amount of tuition fees to be paid to higher educational institutions in proportion to income, and certain costs connected to legal services (court costs, enforcement costs, average lawyer's fees).

An interesting aspect of the accessibility dimension is the scale of involvement of the civilian population in the provision of public services (through community or voluntary groups), which can also be linked to the satisfaction dimension. Investigations shows that the closer the provision of services to citizens, the greater the degree of satisfaction (*Partnering with citizens in the delivery of public services*). The 2011 GaaG gauged the motives and limits of the involvement of the civilian population, and the factors promoting their efficient participation.

## 5.2. Customer burden dimension

Beyond the affordability of public administrative services, the *timeliness* of services – or the provision of services in good time – can also be interpreted in the context of customer burden. The timeliness of services is examined in the 2013 GaaG in the areas of health-care (waiting lists) and tax declarations (processing of online or paper-based tax returns, processing time of court cases). Indicators pertaining to the quality of public administrative services also refer to the scale of customer burdens, such as, for example, customer charters aiding customer orientation and containing their rights and obligations, and the existence of information on patients' rights, which may reduce customers' orientation time and shorten the time to be spent on administration.

### *Measurement of administrative burdens on citizens until 2010 – the international situation*

The topic of reducing administrative burdens has featured at a high level of the European political agenda for many years. In 2007, the European Commission initiated a programme of action to diminish the administrative burdens of businesses. Besides this, it is a generally accepted fact that the reduction of administrative burdens is an important driver of advances in e-government. Within the framework of the European Public Administration Network (EUPAN), directors general responsible for the development of public administration established a study group, in which the members (more than 25 European countries) shared experiences of their methods and practical knowledge.

Based on the results of this exchange of knowledge, it can be stated that an ever-growing number of European countries have worked on measuring and reducing administrative burdens on the population, employing a variety of methods to achieve this. Besides quantitative methods (such as the standard cost model (SCM), for example), an increasing amount of attention has been paid to the application of qualitative methods – the latter primarily revealing the burdens perceived by citizens, and enabling the identification of services representing better or lighter administrative burdens. Among qualitative methods, three models emerged: the standard cost model for citizens, the equilibrium model, and the customer journey mapping model.

Summarizing the practical experiences, it can be stated that all countries participating in the working group have launched programmes to improve public administrative services. Although the goal may be the same, different terms are applied: administrative burden reduction, simplification, public administrative modernisation, quality management, efficacy and efficiency, e-government. The approach of these programmes is not always to reduce administrative burdens (or to eliminate information obligations), but rather to develop services for the general populace – often extended to a wider circle. Another aspect, for example, is to reduce distances by bringing services closer to citizens, aimed at single-window administration and the creation of local and regional centres. In certain cases, this already reduces the administrative burdens.

The reduction of administrative burdens on citizens does not always emerge as a separate political goal, but often as part of broader programmes to minimise the burdens on businesses, public administration, civil servants and taxpayers. Successfully functioning programmes to reduce administrative burdens have been implemented in certain countries for several years now, tied in with structured measurements among other things, while the elaboration of programmes in other countries is still at the early stage. Another difference is that while some states have measured administrative burdens in a quantitative manner (e.g. with the help of SCM), other countries have worked to gain an insight into the administrative burdens on citizens by qualitative methods (e.g. by customer journey mapping or the concept of life situations).

In most countries, e-government has been closely linked to the reduction of administrative burdens and the development of government services, for example avoiding duplicated input of information, using electronic identification, employing electronic forms, etc. The focus of e-government policy is increasingly on the improvement of services and the process of sharing data, according to the principle of “data should be mobile, not citizens.” Generally, the objective of political leaders has been to quantify administrative burdens and attain measurable goals (for example, a 25% reduction). An important basis for this is a common information infrastructure. However, besides quantitative data, an improvement that can be genuinely sensed by citizens is also indispensable. For this reason, the harmonisation of political goals with public perceptions is the most effective solution.

#### *Measurement of administrative burdens on citizens from 2010 to 2014 – the international situation*

The “simplification of procedures” (administrative simplification) means regular and continuous review of legal acts and regulations (including ministerial decrees, joint ministerial resolutions, memoranda, etc.), as well as the transformation of public administrative practices and procedures – in keeping with the principles of efficiency and provision of quality services – for both individuals and businesses.

Administrative simplification is a regulatory tool, the goal of which is to review and simplify legal regulations. Administrative rules create documentary and formal requirements that determine individual economic decisions. These rules differ from economic regulations, which intervene directly in economic decisions, or social regulations, which protect community interests. In recent decades, states have taken an active role in implementing

administrative simplification projects connected to trimming bureaucracy, rationalizing processes and, accordingly, reducing the administrative burdens on individuals and businesses alike.

The elimination of superfluous burdens does not fundamentally contradict the public policy goals of legal regulation. The fulfilment of these goals merely takes place in a more efficient manner. Eliminating information obligations therefore does not necessarily mean altering public policy goals. This is one of the main reasons that simplification has become increasingly popular at the political level as well. The popularity of an initiative lies in the goals of the simplification; namely in the reduction of unnecessary, burdensome paperwork. Accordingly, the principal simplification programmes launched by European countries are accompanied by a great degree of media attention.

At the same time, it can also be stated that once a simplification project is launched and assumes tangible form, consensus and decision-making among those affected is no longer as simple as it looks at the start of the project. The three main groups affected by such projects are: (1) guiders of public policy (ministries) and permission-granting authorities (local government or regional inspectorates); (2) businesses (which have typically already experienced a reduction of administrative burdens, and are thus sceptical with regard to future results); and (3) stakeholders within civil society, who demand that regulations are as strict as possible. The most frequent factors hindering more extensive simplification action plans are: (1) the complexity of the legal /regulatory framework; (2) the lack of strategic planning; (3) impotence and antipathy in the face of change and reform, as a typical concomitant of public administration; (4) the aversion of civil servants to stepping out of their "comfort zone"; (5) fear of endangering the protection of the public interest; (6) the absence of consensus and coordination; and (7) the existence of silos.

Simplification and the reduction of administrative burdens is a complex topic, demanding coordination among all levels of public administration. As a consequence, the majority of member states delegate the guidance of the simplification process to a central government body, typically the prime minister's office, the ministry responsible for public administrative reform or the finance ministry. Other member states take for granted that simplification embraces a number of different areas of public policy, so that in their case the task is carried out by a variety of state agencies connected to the given thematic area. A number of countries have created ad hoc bodies of advisors or experts to support decision-making (e.g. in the areas of measurement of administrative burdens or *ex post* impact analysis).

The process of implementing simplification is a long one, the results of which must continuously be made visible. Accordingly, besides quantitative methods (the standard cost model), techniques that measure qualitative results have also emerged (assessment of the usefulness of legal regulations, methods measuring the irritation factor of obligations). As far as the irritation factor/cost is concerned, these are subjectively experienced burdens, the troublesome impact of which derives from the customer's failure to understand the rationalisation of their obligations or their inability to fulfil the goals of a regulation. In order for simplification to be accomplished effectively, customers need to be involved. If those affected are motivated, and their efforts "advertised," the programme's communicative capacity increases and resistance to change is successfully reduced.

Individual member states achieve the simplification of processes and the reduction of bureaucracy using a variety of methods. Such means may include elimination of

the licensing system, reduction of the number of documents required in a given procedure, shortening of maximum response times, broader application of the rule of “silence is consent,” use of ICT methods, provision of single-window administration, sharing of information among state bodies, and so forth.

To reduce bureaucracy and to exploit overlapping competences among organs of public administration, a number of member states have created single-window administrative points of contact in the past decade, which were initially suitable only for providing information, but which subsequently have become gradually able to carry out the task of generating public administrative products (issuing licenses and certification). The idea behind developing these systems is that there is no expectation that customers (whether natural persons or businesses) are aware of how public administration works, or how the spheres of authority of individual organs of public administration are divided. Customers are more interested in having the entirety of public administration represented by a “single window.” At the EU level, these single-window administrative points are known as *Points of Single Contact (PSCs)*, and have been established – either physically or in electronic form – in all member states, taking into account implementation of Directive 2006/123/EC of the European Parliament and of the Council.

Generally speaking, the basis for the concept of single-window administration is to ensure that customers have a single point of access to information and service transactions. *The key elements of the customer-centric model are as follows:*

1. **Speed:** provision of the service as rapidly as possible, for customers and public administrative bodies alike, while results are handed over within the shortest time possible.
2. **Commitment:** the provision of services occurring in a citizen-focused manner.
3. **Flexibility:** the establishment of an intelligent mechanism ensuring that any variation and any required alteration can be handled.
4. **Value:** making it apparent to the customer that the single-window administrative point is cost-effective, and that the driver of value behind results is the customer, and not the public administrative body or its processes.
5. **Integration:** total integration of the single-window administrative point, where the “wrong door” policy cannot be applied.
6. **Choice:** provision of services through several channels, ensuring customers the possibility of choice to meet their special needs at any time.
7. **Experience:** the need to personalise services in order for the customer to be able to acquire experiences comparable to the services offered in the market sector.

### **5.3. Resource efficiency dimension**

The fundamental indicator of resource efficiency is the scale of *Employment in the public sector* in proportion to the total workforce, covering institutions at all levels of the government and non-profit institutions under the supervision of public institutions. Within this, the proportion of workers in central and local public administration is examined. Measurement of the ratio of women on the labour market – and in the government sector within this – has been assigned a prominent role. Examined within this is the proportion of women

in management roles, among part-time workers, among judges in the judicial sector, and in leading (ministerial, state secretarial) positions at the political level.

An important indicator of human resource efficiency is the compensation (salary + benefits) of workers in public administration, which has been subject to measurement since 2008. Separate indicators pertain to the compensation of upper and middle management, experts, those with higher educational qualifications, and those in secretarial positions.

The 2015 GaaG compared the central government compensation reforms implemented since 2008. In response to the 2008 economic crisis, these pertained not to increases in salaries and benefits, but to reductions of these occurring in various ways. Other human resource efficiency reforms were also compared, such as layoffs, halts in intake, outsourcing, decentralisation aimed at reducing the levels of government, retirements, etc.

Comparative surveys were also prepared with respect to the practice of human resource management (GaaG, 2009), such as the delegating of HR activity from central government to ministries, and the authority of government leaders in the determination of benefits. Comparisons of traditional HR tasks were also carried out, such as the type of recruitment system (position-based vs. career-based), application of performance management, performance-based waging, the existence/management of senior civil servants, and certain correlations among these elements.

#### **5.4. Preparedness dimension**

Connected to the preparedness dimension is the series of questionnaire-based surveys carried out in 2010, which examined the preparedness of government advisors and their capabilities in the service of strategic decision-making. Two questionnaires looked at the role of government advisors from two points of view (from the perspective of ministerial leaders and the advisors themselves), looking at what kinds of activity they carry out (strategic consulting, political consulting, coordination, implementation of specialised policies, media activity, guidance of civil servants, etc.). Related to the topic of preparedness, the OECD's publication *Education at a Glance 2010* comprises measurements of the efficiency and level of development of education systems.

#### **5.5. Satisfaction dimension**

A close correlation can be established between trust in government and the satisfaction of citizens. The measurement of trust formed the central focus of questioning in the 2013 GaaG.

Three levels of trust were placed under the microscope

1. the political level (parties)
2. specialised government policies (government measures)
3. satisfaction with public administrative services

A general tendency was for the level of trust to continuously increase approaching the third level (satisfaction with services). Investigations were also carried out of correlations between

the level of trust in government and that placed in financial institutions and banks, as well as between trust in government and faith in the media. The issue of trust is very complex, being influenced by many factors, such as culture, religion, social status, etc. This questionnaire generally scrutinised the degree of trust, without revealing influential factors more deeply.

Separate measurements are carried out with respect to citizens' satisfaction with public services in the areas of education, healthcare and the administration of justice. The OECD also carries out surveys of perception with respect to the effectiveness and fairness of judicial systems, these being mainly concerned with the impartial administration of justice free of government influence, as well as the timeliness of court decisions.

## **6. Research methodology of measuring satisfaction**

This summary outlines a plan and a few basic principles that provide a framework for a future survey on which later operative planning can be based. Beyond general methodological principles, the classical and/or new solutions outlined here set out a few fundamental criteria for the objectives, the basic features of the target group, the expected temporal possibilities and a reasonable resource framework. These frameworks can be turned into a concrete research project once further specific information on these circumstances becomes final.

### **6.1. Goals and target research areas that the survey can explore**

One of the sub-criteria of the research into the concept of the good state is how customer-friendly public administration is in performing its tasks. Therefore, the goal is to assess customer satisfaction at the end of the procedures (or during the procedures, if necessary) and to see what the people – the users, the customers – think about the operation, efficiency and quality of public services. Another goal of the survey is to assess access to public services (which is also addressed by the principle of customer-friendly services) and the patterns of their use in society.

Another important criterion is that some of the fundamental operating dimensions of public services should not be seen only through the eyes of the customer but they should also be compared, for example, to the customer infrastructure of institutions (e.g. the circumstances under which customers are waiting to be served) and to meeting the expectations of customers with special needs. According to our current plans, the survey will provide feedback on the social perception of public administration and the confidence in civil servants, while it designates the areas to be developed as well as calls attention to the segments and institutions that pose a risk. It is also important for the image created by the people about public administration how broad and valid the range of information is that we can get. From the point of view of methodology and research planning, the most difficult problem is the credibility of this image.

## 6.2. Target group

The issue of the target group raises a number of difficult problems compared to an average satisfaction survey. The target group is not homogeneous and cannot be broken down into specific social, socio-cultural or individually specifiable sub-groups. Every member of society gets into interaction with public administration. *Society* in this broad sense may also include, as a borderline case, certain specific groups: legal persons (companies, associations, civil organisations) and, in addition to several other organisations, foreign citizens staying in our country.

We propose to use a broad definition of the target group for the planning of the research: *Everybody who is a potential user/customer. Everybody who is a user/customer or will/may become a user/customer in person or through a representative.*

This broad definition of the target group practically includes only one restriction, which concerns age: persons of minor age who are not customers of public administration directly on their own right (e.g. their parents submit their application for a personal ID card). The reference to the future in this broad definition of the target group (“will be a customer”) is disregarded here as minors are not potential customers in the present.<sup>11</sup> There is a question emerging here that needs to be addressed during operative planning: how should potential but for now passive customers be asked about their satisfaction with a service that they have not (yet) used before or should they be included at all in such a survey? Initially, we propose to keep this group also in mind since they may have some idea about public administration from hearsay based on some “quasi-experience.” Although their experience may not contribute to a better understanding of the real functioning of public administration, this group may be important for two reasons: (1) their actions will be determined by their views that may have become distorted through mediation; and (2) the views that they take over from others will say a lot about the opinion and level of satisfaction of the general public. This latter dimension can provide valuable information.

We need to review the features of this target group that stem from its general heterogeneous nature and which also have an influence on research planning (as well as on the necessary resources).

1. Since the target group is spatially dispersed, every regional aspect should be considered in sampling.
2. Some of the people belonging to this target group have text comprehension problems, which is taken into account on the basis of two factors:
  - Some of the people belonging to the target group use the language with a restricted linguistic code:<sup>12</sup> they have difficulty in understanding complex structures, multiply complex sentences, texts with several logical conditions, sentences with rare vocabulary and official linguistic formulas, compared to well-articulated and short linguistic units. Some members of the target group will be lost as respond-

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<sup>11</sup> The reference to the future in the broad definition of the target group (“will be a customer”) refers to those who are currently potential customers and who can move to active from passive customers any time in the course of a public administration procedure.

<sup>12</sup> We are using the concept of developed/restricted linguistic code developed by Basil Bernstein.

- ents if the wrong code is used, or the answer rate will decline by the end of the interview (because the interviewee becomes tired).
- Reading ability and text comprehension may exclude some people from the sample even if they use a developed code and if the methods and tools we select are not right.
3. In addition, some members of the target group are digitally illiterate or are unable to actively use digital tools and content. They account for about 40% of the Hungarian people, so we would lose a significant part of the target group by using an online method.
  4. There are several other classical special features that characterise this group: some of them generally refuse to participate in any survey; there are those who typically do not participate in satisfaction surveys or any kind of surveys due to their current situations, such as persons suffering from depression – they account for an extremely large number of people, so their participation would have a significant effect on the internal structure of the results (risk of validity if they are left out).
  5. The target group also includes special groups of people, such as special socio-cultural groups, disadvantaged people who have limited resources, people living in deep poverty (1.5 million), people with a disability (580,000), physical disabled people (250,000), deaf people (60,000) and blind people (85,000).

### 6.3. Sample: sampling procedures and ensuring undistorted data

The sampling procedures must be distinguished from the actual sample that is created through empirical research. In addition to the difficulties involved in representative sampling, it is even more difficult to ensure the collection of undistorted data during field work, making sure that the special groups listed above that are hard to reach or have various difficulties in responding are not omitted or significantly under-represented in the sample. It should also be ensured that no groups are over-represented in the sample at a later stage, such as people who only have time to respond in the morning, etc. Weighting procedures can be used to avoid such distortions or sub-samples can be taken from the main sample but only within certain limits at the expense of (smaller or larger) concessions regarding reliability.

Undistorted data are the most difficult to achieve in dimensions that cannot be controlled well. For example, if people who have an aversion to offices and decline to answer because of the topic are omitted, the sample will be representative in terms of gender, place of residence, etc., but important figures will be missing in the charts that represent the basic attitude towards public administration and offices.

We plan to use the sampling procedures in line with the given part method:

1. In the questionnaires used for clarifying the basic set of terms, we followed the principle of expert selection and the selection of available appropriate subjects.<sup>13</sup>

<sup>13</sup> Here the only – methodological – goal is to see if operative planning is making good progress, which means that we do not need to reach the entire target group and there are no comprehensive criteria for representativeness either.

2. In the case of interviews and focus groups, we use both sampling types: statistical and expert selection. Here the basic principle is that selection is based on competence, that is, on the information the respondents have and the expected value of their feedback. (In this case, we focus on covering as much potential knowledge and information as possible rather than as many respondents as possible.)
3. We can plan to use a random-choice multi-stage representative sampling in the case of surveys based on questionnaires for statistical processing. The size of the samples can be finalised on the basis of the size of the planned sub-groups and the sufficient level of reliability. For the whole population, 800-2500 respondents could be enough.

#### 6.4. Complex methodology

We can collect the necessary data and establish interactions by combining the various methods within each phase of the research. By combining the different methods, we can create a system with layers built on one another, where qualitative methods “depict” the picture, while quantitative methods provide the extent of the picture’s elements. The methods of statistical analysis give us a chance to find explanatory variables in a statistical sense, but we do not propose to use them in explanations without preparation (qualitative methods) or as an explanation for causes or interactions without qualitative preparation (validating interviews).

In sum: interviews and focus group surveys, background databases and pilot questionnaires can be used to prepare the questionnaire-based studies, which can then be supplemented by observations and additional target group interviews. Finally, we propose to use a series of validating interviews. Due to its exploratory nature, there is no “hard” hypothesis and testing strategy in the research. We do not formulate initial hypotheses. We expect to benefit a lot from outlining the initial expectations in the interim stages of the research and their discussion in workshops but we do not envisage to establish anything in advance or formulate any statistical hypotheses. In exploratory research, hypotheses tend to reduce the researchers’ room for manoeuvre rather than improving the chance of valid research work. The ultimate goal is to explore the actual dimensions and capture their true nature. The role of measurement is primarily to explore the widespread nature, strengths etc. of already known phenomena (e.g. opinion about the service).

#### 7. Summary

The primary goal of this paper is to discuss the considerations and constraints, and the conceptual framework behind the indicators presented in the *Good State and Governance Report* – such as the selection of the measures of efficient public administration. We wanted to demonstrate that the inclusion of each of the indicators was not done randomly but it was based on careful selection after their suitability has been properly tested methodologically.

This obviously does not mean that by knowing the values of the given indicators the efficiency of public administration can be clearly established. We continue to emphasise

that the Good State research project has an added value in that it is designed to get a better understanding of the components of public administration as a complex system, the effects and interactions and the causal mechanisms that result in good performance by using the given measurement dimensions or selecting the given indicators.

We do not wish to recap the summaries that can be found in each chapter, but we can see the following as the cornerstone for future work:

1. There are no omnipotent standards for the measurement of a complex public administration system that can make the assessment of the object of the study easier.
2. In the measurement of public administration, we focus on its narrower, horizontal nature in the whole structure of the Good State; we do not propose to remove it from this context.
3. It is not worth studying public administration in a model-dependent manner; at the same time, the measurement or and the feedback on the current public administration management and institutionalisation processes and the results and effects of the related reform strategies are not contrary to the need for gaining objective reflections on public administration.

Going forward, there are numerous tasks to be done for the research team that analyses efficient public administration. There is a general effort to further refine both the conceptual framework and its practical implementation as far as the questions raised and the answers given are concerned. One of these tasks could be the analysis of the relationship between administrative structure and functionality and performance.

The search for the proper indicators, or the creation of them if they are missing, is a constant task. As for the indicators, the key issue to be resolved is how the level of performance can be associated with the input or process variables. The range of indicators can be extended in essentially two directions: by studying how they can be connected to international measurements and by channelling the data into the research that stem from perception surveys. These options were discussed in Chapters 3 and 4. The former one focused on the OECD GaaG indicator system, since this is the data collection that is the closest to the focus of the efficient public administration of the Good State, while the latter one presented the research concept that was designed to adjust specific methodological uncertainties of the 2016 *Good State and Governance Opinion Survey*.

Finally, it should also be noted that at the time of writing this paper and preparing the *Good State and Governance Report*, the government officials responsible for public administration coordination decided that the interventions in the projects implemented between 2014–2020, under the Public Administration and Civil Service Development OP (PACSDOP) funded by the European Social Fund, must also be aligned by the project managers with the development directions specified by the GSI (thus, every project manager must choose GSI indicators that can be shifted in the positive direction by their contribution). As has been revealed in previous research reports, the measurability of the effects of public administration development projects was not among the primary goals of the system of indicators used for the study of efficient public administration; at the same time, the coherent use of these indicators offers exciting opportunities for future studies. As we have explained in detail above, the set of objectives of the measurement determines each of its aspects, so if the goal is modified (in particular, the measurement of and the feedback

on the public administration development projects), the measurement structure should also be amended as appropriate.

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The State Reform Centre functioning within the organizational framework of the National University of Public Service, started in 2015 to release the annual so-called *Good State and Governance Report* (hereinafter: “reports”), the aim of which is the development and continuous operation of an autonomous evaluation system relying on its own database. Based on their methodologically and statistically grounded measurements and analyses across six impact areas – security and trust in government, public well-being, financial stability and economic competitiveness, sustainability, democracy and effective public administration – the reports provide both a kind of cross-section and feedback about changes in governmental capabilities during the specified time interval. The antecedent to this volume is the collection of essays titled *Measurability of Good State and Governance* that formed the basis of the first edition of the *Good State and Governance Report*, and with which the community of expert researchers in the Good State and Governance Working Group attempted to launch a series allowing, for the sake of developing the scholarly background and methodology supporting the forthcoming editions of the reports, for the clarification, debate and justification of the criteria and dilemmas involved in the selection of indicators. In accordance with this, the purpose of *Measurability of Good State and Governance II* is simply to provide a basis for the 2016 edition of *Good State and Governance Report* by revealing to the academic and professional audience those investigative questions and dilemmas that were formulated during the course of the research, along with how they were answered, as well as to provide a forum for discussing the methodological challenges and their factors (frequently limitations and constraints) that determined how the report developed into its ultimate form. Another purpose of this volume is to reflect the opinions and criticisms generated in relation to *Good State and Governance Report 2015*, and to discuss the results and problems, to introduce new substantive and methodological directions for development, with special regard to the international dimension, as well as to channelling the results of opinion surveys.

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