



## Crisis Management and the Politics of Reform in Central and Eastern Europe (workshop)

July 2, 2013 10:00 AM

Hosted by the Hungarian Ministry of Public Administration and Justice and the Institute for Public Policy Research under the auspices of the Hungarian Presidency of Central European Initiative, the workshop on Crisis Management and the Politics of Reform brought together decision makers and researchers from across the region to discuss issues related to crisis management (successful tools of stabilisation and growth stimulation), structural reforms (changes in public administration, public services and social insurance) and social and political costs (unpopular measures and elections, poverty and radicalisation).



CRISIS MANAGEMENT AND THE POLITICS OF REFORM

IN CENTRAL AND EASTERN EUROPE

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### Session 1: Public officials

Mr Tibor Navracsics, Deputy Prime Minister, Minister for Public Administration and Justice, Hungary  
[http://hungarianglobe.mandiner.hu/cikk/20130524\\_tibor\\_navracsics\\_western\\_europe\\_misunderstands\\_our\\_region](http://hungarianglobe.mandiner.hu/cikk/20130524_tibor_navracsics_western_europe_misunderstands_our_region)

Instead of highlighting specific policy issues in his introductory speech Deputy Prime Minister Mr Tibor Navracsics gave a general overview on the reasons why Central and Eastern Europe is extremely important for Hungary and why the Hungarian Government is making intensive efforts to reinvigorate co-operation among the countries of the region. He expressed his conviction that Western Europe misunderstands the current situation and underestimates the potential of the region. Mr Navracsics pointed out that the contemporary Western European is still dominated by clichés originating in the early 20th century and attaching negative attributes (e. g. populism, nationalism and anti-Semitism) to Central and Eastern Europe. This approach, however, disregards the fact that the countries of the region have been more active and successful in terms of structural reforms and crisis management, historic reconciliation or rebuilding strategic partnerships than the Western European ones. The very presence of researchers, decision makers, analysts and advisors at this conference proves that the region is more than a simple geographic concept: it is a source of common ideas – concluded Deputy Prime Minister Navracsics his opening and keynote speech.

Mr Marián Saloň, State Secretary, Ministry of Interior, Slovakia

State Secretary Marián Saloň reported on the details of the public administration reform in Slovakia. The reform aimed the establishment of a modern, professional, efficient and transparent public administration, eliminating the risks of corruption. A major point of the reform is the investment-supporting policy which could be capable of strengthening economic growth and at the same time combating the effects of the crisis. State Secretary Mr Saloň emphasized that enhancement of decision making capacities, development of human resources, long-term strategic planning and inclusion of economic and social partners in the implementation process are all inevitable prerequisites of the efficient reform. In the philosophy of the reform, systems, services and citizens claiming these get simultaneous and equal attention. Safeguarding business interests especially by means of offering more continuity, stands in focus of the realization of the reform. Finally, State Secretary Mr Saloň enumerated five basic measures for enhancing the standard of public administration in Slovakia, namely the education of administrative staff, improvement of strategic planning, integration and rationalization of processes, implementation of practical experiences and more intensive inclusion of the civil sector.

Mr Zoltán Cséfalvay, Secretary of State for Economic Strategy, Hungary

Opening his presentation, State Secretary Mr Zoltán Cséfalvay pointed out two characteristic features of the economic crisis. Firstly, he ascertained that the crisis has been lasting for more than five years. Secondly, he added by invoking Margaret Thatcher's quotation that the crises do not originate from the economy. The current debt-crisis can be led back to political factors, the crisis of the welfare state. Mr Cséfalvay highlighted that in the last five years the

world economy has been functioning by a 'juke-box' method: 'thrown-in' money was supposed to be stimulative enough for the national economies. The fiscal reflation was necessarily followed by restrictions; the causes of the crisis remained, however, unsolved. That is why the world economy lived a period of 'crime and punishment' in 2010-2011. Furthermore, the stark contrast between austerity and economic growth resulted in misleading debates. The State Secretary emphasized that only those solutions can be sustainable which originate from competitiveness based on structural reforms. That is why Hungary has introduced institutional (e. g. debt-break) and fiscal (e. g. new methods of burden-sharing) reforms, new measures on the labour market, in the public administration and in the regional structure. Closing his presentation, State Secretary Mr Cséfalvay reminded that the prompting effect of the reforms primarily necessary and expected in the fields of development policy, investments and infrastructure would not be perceptible at once, the results need time.

Mr Zoran Pičuljan, Deputy Minister for Administration, Croatia

Before introducing the public administration reforms in Croatia, Deputy Minister Mr Zoran Pičuljan looked back on Hungary's more than two decades of supporting the European integration of Croatia. The Croatian Government saw not only obstacles but also potential in the condition of the public administration before the reforms. The reorganization resulted in a workforce reduction by 30.000 of the overall number of public administrative staff. The reform was based on efforts to comply with international standards, enhancement of efficiency, simplification and on struggling for a more professional public administration system. The core fields of restructuring are the central state administration, the legislation, the civil services (especially by rationalization and introduction of a merit-based system), the civil servants' training and the simplification of the general administrative procedure law. Deputy Minister Mr Pičuljan pointed out that more than 100 administrative procedures have been simplified as an important result of this latter attempt in Croatia.

Mr Mahir Yagcilar, Minister for Public Administration, Kosovo  
Guest of the 2013 Hungarian CEI Presidency

Mr Mahir Yagcilar offered in his presentation an overview on the public administration reforms in Kosovo. The reforms of crisis management in Kosovo primarily aim at the prevention of the crisis. The public administration system is deeply affected by history in the former Yugoslavia and the presence of the UN-mission. After gaining state sovereignty establishing a new public administration system became necessary. The process was, however, difficult and complex. The public administration in Kosovo is divided into a central and a local level. The idea of an administrative reform based on EU-expectations and good practices was expressed in 2005. The actual restructuring started in 2007 on the basis of a plan which was modified in 2010. The starting point of the reforms was the adoption of the acts on public administration, public administrative service and the salaries of civil servants. These elements have been complemented by new methods for division of labour, cost reduction, quality-analyses and evaluation of achievements. Finally, Mr Yagcilar mentioned the plans for the future: supplementing the reforms by a uniform training and examination system.

Mr Dumitru Alaiba, Advisor to Prime Minister, Moldova

Mr Dumitru Alaiba started his presentation by the hypothesis on the crisis becoming a 'brand' nowadays. After introducing the past four years of the internal politics in Moldova, he set down as a conclusion that the period of lasting political crisis has been accompanied by temporarily returning escalations. The government formed in 2009 prepared a programme of ambitious reforms in the most sensitive fields like health care, justice, internal policy, education and fiscal policy. Although the government had to face opposition from various sides, visible results could be registered, among others in the field of education. The reforms were, however, accompanied by crisis. Concerning the education reform, the risks were foreseeable (reactions on the closing of schools in the countryside generated by the population decrease). The attack on the banking system in February 2013 provoked by the opposition was rather unforeseeable causing lasting financial uncertainties. Closing his presentation, Mr Alaiba reminded that in case of the last mentioned crisis only the minimization of losses is possible. In order to achieve this, the crisis management measures of the government have to be supplemented by active communication and the inclusion of mass media.

## Session 2: Crisis and crisis management

Mr Zoltán Egeresi, Institute for Public Policy Research, Hungary  
Crisis Management in Central and South-Eastern Europe

Mr Zoltán Egeresi's presentation aimed to give a general summary on the similarities and differences in the crisis management approach of the countries in the region. Concerning the period before the outbreak of the crisis these countries could be classified on grounds of the progress in the EU-accession procedure and the degree of economic development – he set up as starting hypothesis. The countries – except for Poland – have small, open economies. Before the crisis, they were characterized by economic growth, low level of national debt, high FDI-inflows and a relatively balanced state budget. After the crisis, all these positive indicators have deteriorated; however, there were significant differences in the extent of the decline. That is why the decrease in the above mentioned indicators can be the basis of a new classification of the states concerned. Poland, Albania and Kosovo were the countries which managed to achieve real GDP-growth. In Poland the large internal market and the infrastructural investments while in Albania and Kosovo the low level of international economic and financial integration and quite significant amounts of remittances made the positive achievement possible. The second wave of the crisis (crisis of the euro) resulted in a further increase of budgetary deficit and national debt throughout the region. Although the methods of crisis management and external funding largely differ from country to country, the simultaneous application of stimulative and restrictive measures in the period between 2008 and 2013 is a common feature of all states concerned. Some countries applied for IMF-funding, reduced budgetary expenditures; several states increased retirement ages and taxes (especially VAT). Not only the economic but also the political consequences differ: in the majority of these countries the economic restrictions, corruption scandals and the weak coalitions led to the fall of the governments. Summarizing the situation Mr Egeresi concluded some common features: firstly, each country applied stimulative and saving measures; secondly, the effects of the crisis have been significantly influenced by the level of exposure towards the EU; finally, the fall of each and every government was not only a consequence of the crisis but also that of corruption cases.

Ms Desislava Nikolova, Institute of Market Economics, Bulgaria  
Crisis Management in Bulgaria

Mr Răzvan Orășanu, Romanian Academic Society, Romania  
Economic and Policy Making Challenges During the Recent European Crisis

Mr Răzvan Orășanu enumerated the four stages of the evolution of the crisis: 1. in the period between 2007 and 2008 a 'real estate bubble' appeared; 2. this resulted in a banking crisis; 3. which turned into a debt crisis as a result of the bank-saving policy of the countries; 4. finally an institutional and systematic crisis

evolved. Introducing the situation in Romania, Mr Orășanu pointed out that the high economic growth between 2001 and 2008 could only be upheld by the unsustainable internal demand causing a 'debt balloon' in the period of 2004-2008. The FDI inflows lost its pace in 2009, the level of budgetary revenues declined, the balance of the national budget became unstable, the lack of efficiency at public companies and the extent of tax avoidance became visible, several questions arose concerning one of the most unsustainable pension systems in the EU and the backlog of diversification at the export markets crystallized as well. Closing his presentation, Mr Orășanu drafted ten alternatives how to combat the effects of the crisis in Romania: more efficient use of EU funds, cutback of shadow economy, tax administration reform, wage control, enhancement of the export volumes, better governmental asset management, intensification of productivity, solution for the pension crisis, coherent privatization, improvement and innovation in the public administration.

### Session 3: Political Costs and Consequences

Mr Roman Joch, Civic Institute, Czech Republic  
Unpopular Measures and Elections, Poverty and Radicalisation

Introducing his presentation about unpopular measures Mr Roman Joch called attention to the versatility of the European nations and countries. That is why he did not consider as possible to offer universal solutions. However, at the moment it is inevitable for statesmen to enforce the restriction measures even by risking their political carriers. In order to convince citizens about these steps he recommended the use of 'reward and punishment' strategy, the demonstration of the worse option and the communication how to avoid the risks of the latter alternative. According to Mr Joch it is of crucial importance to emphasize that – in contrast to the Marxist–communist and corporative approach – neo-conservatism offers a win-win solution characterized mostly by economic growth. He ascertained that the blend of corporative – Christian democratic and neoconservative ways of thinking could offer the ideal approach. Finally, Mr Joch pointed out that direct communication with citizens is inevitable especially for those being in leading governing positions.

Mr Jan Erik Surotchak, International Republic Institute, Slovakia  
The Political Costs of an Economic and Social Reform Agenda

In his presentation Mr Jan Erik Surotchak dealt with the centre-right parties of the region focusing on their history of almost twenty years. In the years 1996-1997 in several countries of the region centre-right parties formed governments introducing reforms, approximating to the EU and NATO and accelerating privatization. Six out of the seven parties obtaining power in that period lost its influence or dissolved until 2000, partly because of their reform agenda. Mr Surotchak considered it as a promising development that GERB and Fidesz have gained considerably on support, the Macedonian centre-right party has practically no rival at all and in Poland two centre-right parties are combating for power. However, in Romania the centre-right coming into power in the 2000s has lost on importance and the centre-right in Slovakia has just underlain at the elections. According to Mr. Surotchak the decline of the centre-right is not only a consequence of the parliamentary exchange theory and this is not even a negative process. The evaluation of the parties is rather influenced by the actors on the two political wings, by their policies and their capability of learning. The centre-right parties governing at present have to face four challenges: difficult, painful reforms, loss of popularity, growing distance to citizens and sometimes even corruption. As a conclusion Mr Surotchak stated that the centre-right parties obtain power more easily, but they face serious difficulties in governing, maintaining contacts with citizens, keeping the central-right orientation and sustaining coalitions.

Mr Grigorij Mesežnikov, Institute for Public Affairs, Slovakia  
Socio-economic Reforms in Slovakia: Public Perception, Social Impact, Political Implications

Mr Grigorij Mesežnikov presented the reforms of the past almost twenty years in Slovakia focusing on the political environment of the reforms and their perception in the public opinion. The reorganization measures concerned at least eight different issues from the reform of ownership relations through a tax reform until a public administration reform. According to Mr Mesežnikov the political parties of Slovakia could be divided into two groups: the 'reformist' and the 'revisionist' ones. In order to clarify this categorical nature of this statement he added that the majority of the basic (systemic) reforms were carried out on a consensual basis, so the second group of parties cannot be considered as a revisionist in absolute sense. However, concerning the structural reforms such a consensus cannot be observed. The 'reformists' have been characterized by a high level of discrepancy, but with regards to their results at elections, in case of good communication, they could be competitive. The current stability in Slovakia is due to the implementation of former reforms. The polls of year 2000 show that the population is open to structural changes. The outcome of future reforms depends on the strategy of the centre-right coalition as well – concluded Mr Mesežnikov.

### Session 4: Politics and reforms (or the lack of...)

Mr Paweł Ukielski, Freedom Institute, Poland  
The Tusk Governments – a Lack of Reforms

The Tusk-governments' results and the backlog of reforms stood in centre of Mr Paweł Ukielski's lecture while additionally mentioning the former right-wing governance. Since 2008 GDP has not declined in Poland which is primarily due to the internal market being more significant in comparison to the other Visegrád-states and less exposed to the turbulences of the external markets. The economic growth was supported by a flexible monetary policy and by a relatively small regression of the less developed banking system. The consumption stayed strong as well partly because of cutting taxes on labour on the eve of the crisis, partly due to a demographic explosion in the early 1980s. Despite of Poland being Europe's 'green island' in the eyes of foreign analysts, the decision-makers in the government did not aspire to changes, the structural reforms failed and the mass media supporting the governing parties did not put enough emphasis on the necessity of actions. Significant reorganisation can only be perceived in case of the pension system: retirement ages will be increased step-by-step until 2040 and levelled to the same age for men and women. Finally Mr Ukielski called attention to the wages in the public administration rising over the salaries in the private sector and the failing of reduction of public expenses. These deficiencies are especially problematic while the crisis is not over, the economic growth has not returned yet.

Mr Stjepo Bartulica, The Croatian Center for the Renewal of Culture, Croatia  
Structural Reforms – or the lack of them – in Croatia

Commencing his presentation Mr Stjepo Bartulica dealt with some questions of the Croatian EU-accession. As far as the lack of reforms was concerned, he emphasized the analysis of the cultural background. According to Mr Bartulica the necessity of this examination arose from the situation of power being much more provisional than the cultural conditions. Regarding the current situation of Croatia he stressed the determining role of the post-communist heritage and the

corruption sensitively affecting centre-right parties as well. Mr Bartulica characterized the economy of Croatia by the complete lack of growth, underdeveloped capital markets, labour force starting to move West and the private-pension reform struggling to function. A general frustration surrounds politics, the citizens usually vote against rather than for a certain issue. As for the future, Mr Bartulica referred to the political assumption of Christianity at European cultural level and to the Hungarian government's determination for the representation of Christian values as an example worth to comply with.

Ms Orsolya Pacsay-Tomassich, Századvég, Hungary  
Reforms and national interests – The case of Hungary

Ms Orsolya Pacsay-Tomassich focused in her lecture on the Hungarian reforms. She recalled that crises can be lead back to philosophical factors as well, which was in our case the question of sovereignty in a nation-state. The new government had to face a difficult situation in 2010: the national debt rising from 53% to 83%, the problems of foreign exchange credits, the strict conditions of an IMF-credit and the difficulties of the welfare-state. The new centre-right right-wing government showed a deep commitment for far-reaching reforms. The economic necessity was accompanied by a political one and the power of the two-thirds majority. The philosophy of the Orbán-government rests upon the replacement of the over-indebted state by one based on labour. These attempts are, however, impeded by a high level of debts and underemployment. The confrontations in the field of EU-politics are accompanied by constructivism, because the government has shown itself ready to react to the critics of the EU by amending his decisions.

## Session 5: Crisis and Governance

Ms Vesna Malenica, Populari, Bosnia and Herzegovina  
E-governance: Challenging the Outdated Systems

In her presentation Ms Vesna Malenica described general political problems of her country and encouraging local initiatives as a possible way out. While the Bosnian media do not accentuate the reforms and their necessity, a small town started in 2009 such an IT-development process which can serve as an example for the whole country. In order to create a favourable business environment, the municipal council decided on the reduction of authorization periods, a mandatory training for municipal staff and introduction of transparent municipal work. Procedures of the municipality connected to local services are conducted by electronic administration, several free wireless internet spots have been set up and e-government administration has been made possible. This environment is attracting for foreign investors as well and so motivating the canton to introduce further changes. This case is an excellent example for the local incentives being surprisingly effective.

Ms Tamara Dimitrijevska, Center for Research and Policy Making, Macedonia  
Public Administration Reform in Macedonia with Particular Focus on the Process of Decentralization

Ms Tamara Dimitrijevska reported on the background and current stand of the public administration reforms in Macedonia. The preparations for the reforms had already started in 1991 but the actual procedure commenced only in 1999 on the levels of public and local administration as well. The more detailed strategy of the reforms and the horizontal restructuring were introduced in 2010 and the estimated completion will be in 5 years. The implementation of the reforms is supported by a cross-institutional commission and by the Ministry of Information Society and Administration set up in 2011. Ms Dimitrijevska mentioned the basic problems of public administration as well. The party-political employment in public administration has been subject to heavy criticism from the population. A further problem, the proportionate employment of the Albanian minority in public administration seems to be solved by the introduction of positive discrimination of minorities. In Macedonia there is no regional level in the public administration system: besides the central administration there are 124 municipalities. As a conclusion Ms Dimitrijevska ascertained that although the efforts for an efficient and unswayable administration have brought mixed results, the reduction of corruption, the improvement in the fields of access to information and transparency are already visible.

Ms Bardha Rrustemi, Director of Public Administration Reform Department, Kosovo  
Reforming Practices in Public Administration in Kosovo

Ms Bardha Rrustemi gave an overview on the background and current stand of the public administration reform in Kosovo. The reform started in 2005 with a status report followed by the adaption of the first reform strategy and the action plan for its implementation in 2007. In April 2008 the functional and structural review of the institutional system was launched with British support. Among the 400 recommended measures there were remarks concerning human resources and transparency as well as the control of public procurement procedures. Since September 2010 strategic development plans have been elaborated for each institution. In the same year the former strategy was reviewed. Ms Rrustemi highlighted the main fields of the reforms like transparency, communication, rationalization, budgetary planning and its implementation. The public administration system of Kosovo has a two-tier model; it is based on central and local units. Important fields of action are the introduction of mandatory training and examination, the establishment of an administrative inspection institution and the reduction of costs.

## Session 6: Local and Social Aspects of Public Policy Reforms

Mr Zbigniew Rau, Alexis de Tocqueville Center for Legal and Political Thought, Poland  
Towards a Strong Democracy in Local Government. The Case of Poland

Mr Zbigniew Rau explained the role of Polish, primarily local, civil associations in the overall politics. Before 1990 civil society had been developing in an 'underground' way, in opposition. Looking back, this period can be seen as the 'Arcadia', the golden years of the civil traditions. The current regulation has lead the situation change to its opposite by preferring party lists at local elections. Adverse effects have appeared in local municipalities, the political parties and their cliques have gained too much on power. As a consequence of this, public debates have become more restricted, people loyal to the parties have become candidates at elections, and the decision on nomination is in the hands of the parties. The last remaining chances for the weak civil society are the elections held every four years. The crisis of the local self-governance has lead to the weakening of democracy and devaluation of the republic-ideal. That is why Mr Rau proposed radical solution alternatives: the elections should take place exclusively in single member constituencies, the possibility of re-election should be restricted, the institutions of ombudsmen should be extended to the local level as well and the nation-wide parties should be excluded from the local self-governance.

Ms Biljana Pejović, Center for Democratic Transition, Montenegro  
Transparency of the Montenegrin Institutions

Ms Biljana Pejović introduced the condition of the Montenegrin democracy and governmental institutions on the basis of surveys. The institution represented by Ms Pejović aims the support of democracy, good governance and a strong civil society. These cannot be characterized as strong in the current Montenegro, but the improvement and its possibilities are continuously examined. Focusing on the democratic institutions, the centre has developed a three-stage model of monitoring. The 16 currently existing ministries show significant differences at the scale of good governance. The most developed is the Ministry for Finance, while the Ministry for the Rights of Minorities is the least transparent. The discrepancies are much more significant concerning the conditions in the 37 administrative organisations observed. It is, however, promising that there is a real competition between the 21 municipalities in the implementation of the recommendations. Ms Pejović also listed the most important challenges of the Montenegrin institutions: the lack of strategic goals, the shortcomings in the reporting system and in the budgetary transparency, the failing attention to communication technologies and the corruption regularly noted by international organisations.

Mr Boris Majcen, Institute for Economic Research, Slovenia  
Long-term Sustainability of New Pension Reform in Slovenia

Mr Boris Majcen explained the possibilities of achieving long-term sustainability in the pension system of Slovenia. He emphasized that the aging of the Slovenian society would lead to serious problems and the failing of reforms to expansive costs. The new pension reform was adopted after two years of political struggle introducing major changes, with more severe conditions concerning women. The former pension system was burdened by several difficulties: the level of transparency was low, the calculation of pensions was linked not only to wages but also to other pensions, the conditions differed in case of men and women. That is why its sustainability was questionable on both short and long term. In 2005 a micro-simulation model was started with a sample of 40.000 households and 112.000 individuals. This model was not only applicable to the pension system but also in other fields of public policy. After the reform, the principle of horizontal equalization was repealed and it stabilized the pension budget for the upcoming years. Still, the long-term sustainability of the system is uncertain, after 2023 a significant increase can be expected in the pension expenditures in relation to the GDP. Mr Majcen concluded that the comforting solution is hindered by the claims of trade unions and by the lack of trust and political liability necessary for a debate on the long-term perspectives. The ideal solution could be based on the connection of childbearing and retirement ages.