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2012

Online at <https://mpra.ub.uni-muenchen.de/40355/>  
MPRA Paper No. 40355, posted 06 Aug 2012 14:25 UTC

# Current challenges and possibilities to control state's role in Hungary

Ákos Milicz

*The present study deals with the role of the state in the economy and the possibilities to control this role. Measurability of efficiency and the Hungarian characteristics of the role of the state are in the focus of this study, but these issues are organically linked to the notion of transparent economic management. The present study presents the place and the forms of state role from a hypothetical perspective, and then unfolds their practical application through Hungarian examples.*

**Keywords:** state tasks, state role, control of community expenditure, efficiency of public administration, internal audit of the budget

## 1. Introduction

Re-interpretation of state's role, investigation of its functions, and, at the same time, criticism of its burden-bearing capability and its excessive role or excessive standoffishness with regard to the distribution systems is an ever increasing tendency in public administration and public service. The above dispute has become calamitous since the crisis in 2008.

Whose task it is to execute a task, who shall finance its implementation, who should regulate and control its implementation and who shall actually perform it – these questions are often raised in the current Hungarian legislation process. In the meantime, we are talking about a strong country, the notion of a cheap state, efficient public administration, and new public service models, we are looking for efficient ways of utilising tax money, and compare Hungary to the public administration and public service systems of other countries on the basis of several indicators.

In my article I investigate how the modern, 21st century public service role of the state can be harmonised with the economic challenges and problems of using public money, and the road taken by contemporary Hungary in this theoretical context. In my article I try to find the correct answer to the following question: What and how shall be examined, analysed, controlled and quantified with regard to the role of the state?

## 2. The place and role of the state in modern economy

Hungarian professional literature (Muraközi, 2009; Fekete and Szigeti, 2005; Sárközy, 2006; Báger and Kovács, 2007; Bara and Szabó, 2000; Hoós, 2002; Bod, 2002; Veress, 2001; Jenei, 2008; Voszka, 2011; Csaba, 2010) deals in great details with the place and role of the state in the economy, examines its historical and political aspects, analyses its methods, models, and implementation by countries, sometimes also by means of comparative-analytical methods. The very same issues are discussed in the international literature from many more angles and a dozen of approaches<sup>1</sup>.

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<sup>1</sup> See in more details and in a collected form in the publications of Voszka (2005) all those opinions and trends which have been published by the international scientists in this subject matter.

However, the large theoretical categories of the forms of state<sup>2</sup> presence are basically uniform. These large collective categories – like concepts and trends<sup>3</sup> – are the following:

- We are talking about a night-watch state in those cases when the state only has a minimum role in the economy and, at the same time, also in the regulation of the society's life. Guarantees the legal frameworks, regulates the economy, and assures the goods which can not be privatised, namely the purely public goods, like maintaining the state of law (legislation, jurisdiction), performing the tasks of defence (home defence, law enforcement, civil protection, disaster prevention, etc.), maintaining the operability of macro-economy (bank system, issuance of money, management of economic policy, fiscal measures, etc.), and performs the duty of institutional protection related to the protection of basic rights (including jurisdiction, operation of prosecutors' offices, etc.).
- We can talk about a welfare state when allocation and redistribution reach a significant extent, namely, when the purpose of economic policy is to continuously increase the feeling of comfort of the citizens simultaneous with levying relatively high taxes, in other words, the endeavour to reach equality, realise full employment, expand the system of social provisions, promote solidarity, realise extensive and comprehensive education, promote housing so that all these activities are organised and managed by the state, but financed by tax money collected from the citizens.
- The state structure is called service providing when the state adjusts itself to the needs, requirements and culture of the nation, and provides certain services with wide access so that the burdens (costs) of these services – along the lines of certain principles - are divided among the inhabitants, the economy and the state budget (for example: operation of the e-administration system, government portals, etc.).

Each state defines the principles, decisions and trends to be followed in its economic policy, structure of power and the interpretation of public policy. Defining the weight, scope and extent of the regulatory, welfare and service providing roles is also a part of this (Hoós, 2002), (Veress, 2001).

When we want to define the size and extent of the state's role, we also have to investigate those roles which can not be delegated from the state, namely the inherent roles<sup>4</sup> (Kovács, 2009). Inherent state tasks are those activities which are provided by the state due to its force of power and not as a service. In this sense, the authority tasks, legislation, law enforcement, defence activities, diplomacy and representation type of tasks fall, in the first place, into this category. These tasks may not be left upon the actors of the private sector, in other words, they may not be delegated, outsourced, given in concession, and no PPP programmes can be launched for this purpose. In principle, the provision of all the other services might be delegated, namely might be entrusted to economic associations, a group of

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<sup>2</sup> In my paper, the expression „state” is always interpreted as a collective term, including central administration, social security funds, earmarked financial funds, local governments, public foundations, economic associations owned by budgetary organisations, public entities, in other words, all those organisations, agencies, offices which manage and use budgetary funds, if you like, tax money, EU funds, contributions, duties, etc. for the benefit and interests of their own citizens, the members of the community.

<sup>3</sup> It is of utmost importance to declare, already in the beginning of the article, that here I am writing about the modern interpretations of economic policies, namely operational models of the state and not about ideologies, schools, and not even about state tasks and functions. For this reason, stabilisation, as a function, does not appear on my list, and the above list does not correspond either with, for example, the conservative versus liberal approaches.

<sup>4</sup> The term „inherent” is of Latin origin, and its precise meaning is: inseparable, may not be deprived of something, forms an integral part of something.

private individuals, social organisations (NGOs)<sup>5</sup>. Another issue to be clarified is the party (the citizens, the state, the service provider, or a mixture of the above) paying the costs of providing all these services.

In connection with delegating the tasks we have to note that delegation of the tasks does not exempt the state from the responsibility to perform the tasks professionally, cost-efficiently and successfully. Though the service is provided by a third party, it is ordered by the state, consequently it is the responsibility of the state to control the subsidies granted from public money, and control the quality level, legality, efficiency, etc. of the services provided in stead (on behalf) of the state (Kovács, 2011).

Let us now see some actual practical Hungarian examples for this:

- In Hungary, the courts used to deal with payment summons cases before 31 May 2010, whereas since 01 June, the notary publics are in charge of them. The notary public is a person who is member of the chamber, pays taxes individually, and runs an office. The state delegated the execution of payment summons cases, but kept the right to regulate the legal institution, in other words, the state continues to define how the notary publics shall deal with the payment summons cases and how much their fee shall be.
- Auditors control the annual reports of the economic associations and issue a clause to the report. Auditing is not executed by a government body (e.g.: National Tax and Customs Administration, State Audit Office, Government Control Office), but by private and legal entities, which are members of the Chamber of Auditors. With regard to the co-ordination, quality assurance and supervision of their activities and their training, the Hungarian Chamber of Auditors is in charge, in the first place. However, the state defines, via legislation, the detailed rules and procedures of auditing, operation of the Chamber, public control over the activities of the members of the Chamber, etc. Consequently, the state maintains the regulatory tasks, while the authority tasks are partly delegated to the Chamber of Auditors, as a public entity.
- In the area of higher education, close to 55 investments were executed and are still realised in 2012 in PPP construction, which are not simple infrastructural development activities, but also represent the transfer of a part of the operational services to the private entrepreneur responsible for their operation. Consequently, the state delegates the tasks of constructing and then operating the dormitories, research facilities, etc., while it continues to be the party rendering the respective services, and defining the level, requirements and rules of the services and the university/high school continues to establish the legal relationship with the students. At the same time, the students pay, for example, a fee for the dormitory, contributing this way to bearing public burdens.

The forms of state role and market intervention also show a varied picture. It is evident, that regulation, namely executing the legislative and regulatory tasks, is the responsibility of the state, which, in practice mean the enactment and enforcement of laws, decrees, in summary, the rules of law. By means of regulation, the state defines the possibilities of the market actors, issues mandatory requirements with regard to their scope of movement, behaviour, and legal deals, and sanctions (tax fine, supervision fine, withdrawal of licences, suspension of tax identification number, and in more severe cases, launching criminal procedure), should the above be violated.

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<sup>5</sup> At the time of writing the paper, the draft bill terminating the notion of social organisation and introducing the term „civil organisation”, which was approved at No. T/4866 in November 2011 was not yet in force.

At the same time, legislation is not the only form of state role and intervention. The state also influences the actors of private economy via the so-called fiscal and monetary economic policy measures and can influence them to change their original intentions, change the value, the term and the scope of the legal deals, etc. For example, subsidies granted from the budget (subvention, transfer), which might take the form of a certain amount of money given to subsidise an investment, a donation with the intention to support a social organisation preserving traditions, subsidy repaying losses after the event in the case of farmers, granting tender money to the operator of a hostel for young tourists, etc. (Jenei, 2008.). Transformation of the tax system, operation of mandatory social security system, interest-rate policy, and direct foreign currency interventions also represent economic policy elements. The common feature of all these forms is that one or some of the economic actors are better off (save costs, gain extra profit<sup>6</sup>) in comparison to their original situation as a consequence of the state's decision and/or measure (or the lack of it), while the situation, position of the others becomes worse (for example, its product becomes too expensive, loses a part of the income, shall be excluded from a certain market segment<sup>7</sup>, etc.) (Major and Szilágyi, 2007).

In addition to legislation and shaping the economic policy, the state has an additional tool to intervene into the circulation of a given economy. And this tool is the foundation of direct companies with state ownership in the background. Prior to the transformation into a new regime, there were state owned companies, which were, at the same time, the symbols and the executors of socialist planned economy. However, it is not alien from the nature of market economy that the state enters the market via its own companies and operates an economic association with the primary aim to gain profit, while undertaking the risks deriving from the rules of the market. In this structure, the state has a dual role:

- investment: establishes a company from public money (typically from tax revenue and state property taken into the company as contribution in kind), withdraws, in the form of dividends, the after-tax profit of the company and receives extra revenue (profit) in the long term (may use this money to finance loss-making state tasks via the central budget). In essence, it is an investment activity, and if we step forward, it is the mainframe financing of certain state services, or a long-term guarantee for debt service, etc. The state can stabilise this position in the long term and in a sustainable manner, if it shapes the environment by other means – typically via legislation – so that the company founded by the state gets into a monopoly position at the marketplace, and its extra profit is used as dividend.
- operation: the state, from its own annual budget, grants a certain amount of money each year to the company to cover the operational costs<sup>8</sup>, or concludes a public service agreement with the company and orders a service from it, and the revenue of the service covers the costs of operation of the company. In this case, current operational tasks are not delegated by the state to a budgetary organisation, but to its own company which shall be managed, supervised and owned by the state.

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<sup>6</sup> See, for example, the case of MALÉV, which is tried hard to be kept alive by the state with capital injections, loan guarantees and re-purchase since the transformation into a new regime.

<sup>7</sup> See the direct subsidies granted to the companies manufacturing domestic products and rendering domestic services, which put the import companies into a competitive disadvantage.

<sup>8</sup> This is a kind of posterior capital injection, or additional payment, when the state re-increases its capital – existent at the time of foundation, but disappearing in the meantime – to the minimum mandatory level in order to meet the legislative requirement with regard to the proportion ratio between registered capital and equity capital, otherwise a decision should have to be made about the transformation, or in the worst case, termination of the company.

### 3. Purposes and the real situation of state ownership in Hungary

The driving forces of state ownership can be defined along the following lines:

1. The state intends to solve a problem or realise a task durably within its own competence and via its own organisation, and, naturally, assets (buildings, equipment, vehicles, budgetary subsidies, etc.) are also transferred and attached to this task. The purpose behind is to be able to render the best possible services for the citizens and the users of these services. Classically, these objectives are related to inherent state tasks. For example, public and higher education (university buildings, machinery and equipment, budgetary normative subsidies), but we could also mention healthcare, national defence, and public education services. I also classify into this category the organisations owned by the state and operating from non-negotiable shares, like Hungarian National Bank Company, Hungarian State Debt Management Centre Company, or Hungarian National Asset Management Company<sup>9</sup>.
2. The state intends to solve, besides others, the tasks of maintaining public areas, managing the electricity system, public roads, passenger transport, public warehousing, water supply, etc. similar to the above solution, though not in a budgetary, but an economic association form. For the realisation of these tasks, and for this purpose, companies 100% owned by the state were set up<sup>10</sup>, but these companies cover their expenses not exclusively from government subsidies but also from the service fees paid by those who use the respective services (waste management fee, transmission fee, road toll, transport ticket price, public warehousing fee, water consumption fee, etc.). These companies represent a part of the stable assets of the state, and are listed in the up-to-date attachment of the Act on state property<sup>11</sup>, and, depending on the government policy, they are sometimes taken off, and at other times taken back to the list<sup>12</sup>.
3. The state wants to have, temporarily or lastingly, certain resources, things representing national advantages, or the organisation possessing thereof under its own supervision. This way, the state owns the strategic resource, which might be of key importance for the national economy due to state debts, the stability of the financial system, etc. The majority shares of Rába Company were purchased based on such considerations by the Hungarian State in 2011, and the state became a majority shareholder earlier for the same reason in MOL Company, or in MALÉV, and the Post Bank. The specific feature of these situations is that the outsiders are not familiar with the true causes and reasons of the purchase decision, the motivations behind do not become public and reasonable, or suggest secret motivations. Though the programme of the media, the interpellations of the MPs and the different investigation committees also deal with the timely transactions, the diplomatic agreements in the hind and the national security interests usually remain hidden.
4. Finally, the state purchases, with the purpose to provide temporary help and without considerable interventions (in everyday terminology: saves) companies by taking their business shares into state ownership. Similar to business shares, land can be taken into state ownership, and – recently – the property of those defenceless<sup>13</sup> people who drew loans in foreign-currency might also be taken into state ownership. These assets are managed,

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<sup>9</sup> At the same time, legal successor of State Privatisation Agency Company, also possessing non-negotiable shares, and two other organisations operating as budgetary organs.

<sup>10</sup> Of these organisations, the local governments also received an ownership share in the case of local economic associations.

<sup>11</sup> Currently, Attachment No. 1 of Act CVI of 2007 on state property.

<sup>12</sup> The case of Regional Waterworks Companies or that of Volán Companies is a good example for this.

<sup>13</sup> That word is regularly used without parenthesis in government communication, while the experts, analysts, and leaders of financial institutions use it in parenthesis, in figurative sense.

transitionally and temporarily, by Hungarian National Asset Management Company and/or National Asset Management Company. As a consequence, the state does not prepare for lasting state ownership in the case of these companies and assets, since the business shares and the assets shall be sold (given back) to the previous or a new owner, should the economic situation become more favourable. In this case, the sole purpose of asset management is the preservation of real assets and organisation of their rational use in order to cover the costs of ownership (reporting system, auditing, remuneration of the members of the Board of Directors, operation of the Supervisory Board, etc.) and to prevent the deterioration of the assets and preserve their status and value.

From the purpose and strategy of state ownership the objective for which the state wants to become an owner in one or the other company is of decisive importance and should thus be controlled and clarified. Consequently, the category where a concrete legal deal falls of the above-mentioned ones together with the concrete objective of ownership, the expectations of the state and the way the given piece of asset is used for the benefit of the narrower or wider community should be clarified.

#### **4. Successful, efficient and economic way of state (community) ownership**

These days in Hungary, community property and assets have a number of owners. While up till now, in my paper, I have spoken, in a simplified manner, only about the state, we have to admit, if we consider reality, that community properties are managed by the state (the ministries and the background institutions, and their economic associations), local governments (local, county-level authorities and their associations, companies), sub-system of social security (National Healthcare Fund, National Pension Fund) and separate state-owned financial funds (Labour Market Fund, National Cultural Fund, etc.) as well.

In the case of these organisations – no matter which of the state budget sub-categories they belong to – the purpose of asset management is manifold. Their task is not purely the professional management of the assets, but also the provision of community services attached to the utilisation of the assets for the benefit of the citizens (or migrants, refugees, etc.). It is not sufficient to investigate only the fact whether the assets are still available with all their equipment and in their original value in comparison to the status at the last investigation<sup>14</sup>, but it should also be scrutinised whether the state, local government, social security fund, etc. offered the adequate community services (education, health-care, passenger transport, funerals, public lighting, corporate procedures, etc.) by means of the assets. In other words, not only the success, but also the efficiency of state asset management shall be controlled continuously (Kovács, 2011).

We can speak about successful asset management if the real value of the assets remain the same after a certain, examined period, namely the assets did not loose their value, or, in the better case, the value has increased.<sup>15</sup> The term “efficiency” means that valuable (new, fast, etc.) state services are rendered via the utilisation of the used pieces of assets.<sup>16</sup> We should note that the budgetary sector also uses the

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<sup>14</sup> Namely, whether there was a loss (or increase) of property, and/or were the properties representing the assets transferred (for example: purchase or sales of real estate, sales or purchase of machinery, their sales and then rental).

<sup>15</sup> According to classical definition, success is the relationship between the outputs and the objectives of an organisation (Anthony and Govindarajan, 2009.), namely, it is the extent the set objectives were realised or the relationship between the intended and actual effects of an activity.

<sup>16</sup> According to classical definition, efficiency is the relationship between the outputs and inputs, namely the quantity of output per one unit of input (Anthony and Govindarajan, 2009.).

criteria of “3rdE”<sup>17</sup>, which means economical<sup>18</sup>, like, for example: achieving the objective to minimise one unit of input while preserving the adequate level of services. Namely, it is not sufficient for an organisation to be successful and efficient, but it should also be investigated whether the quality of state services reach the required minimum level (defined by standards, legislation, requirements, etc.)<sup>19</sup>.

As a consequence of the above statements, an organisation managing state property and assets and providing state tasks might be:

- more successful, reaching the objectives faster (for example: finishing the construction of a building ahead of time) than planned, namely it is at the disposal of the taxpayers earlier. Similarly, a school is more successful when more students enter the university from that school than from another one (while along the lines of all the other characteristics, like the level of services, number of teachers, methods, etc., the two institutions are the same).
- more efficient, when, in comparison to its previous status or to another organisation with similar assets, it can offer more services. A good example for this is the toll fee, which is the same for two years for those who use the services, but the length of the motorway is longer in the second year than in the first one (new sections were completed), since those who use the motorway may use more kilometres of the motorway for the same price. The motorway management company is also more efficient if it offers a longer section of the motorway than the foreign partners for the same toll fee.
- more economic, when, during the investigated period, the expenditures were smaller (less people, smaller territory, less budgetary subsidies, etc. were used), namely less subsidies, tax money, service fee, etc. were received or collected while the level of services remained the same. A good example for this is the local government which, compared to the previous year, receives less budget subsidy, namely the local budget becomes smaller, while the services (school, kindergarten, cemetery, public lighting, family doctor services, etc.) are rendered under the same conditions and at the same quality level as the previous year.

When applying this „3E” principle, a kind of equilibrium shall be achieved at all times, since it may happen that the efforts to increase efficiency and economy contradict to each other, namely prevail at each others deficit. For example, in the case of a state investment, deadline, costs and technical content are in a closely related, but exclusive relationship with each other, thus the management shall keep in equilibrium these three trends in order to keep public money spending in equilibrium as well.

During the final performance audit of asset management activities we should answer the question whether the given task or process has reached the intended effect and result, with due respect to the „value for money” expectation, which can be best described by the following formula<sup>20</sup>:

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<sup>17</sup> It is derived from the initial letters of economy, efficiency and effectiveness.

<sup>18</sup> In the business sphere, there is no difference in merit between economy and efficiency. As a consequence of the above definition, the more efficient is also more economic.

<sup>19</sup> When measuring the performance and evaluating the activities of public administration – depending on schools and authors – besides 3E, other criteria, like equity, productivity, cost-efficiency, streamlining, high level of ethical sensitivity, or social responsibility, service approach, imbedded in national traditions, etc. also appear. In addition to the mathematical approach of 3E, these factors put the emphasis on qualitative work performance and the performance characteristics of state organisations, offices, and/or institutions.

<sup>20</sup> Source: <http://www.kormany.hu/download/f/8f/10000/Teljes%3%ADtm%3%A9nyellen%5%91rz%3%A9si%20m%3%B3dszertan.doc>, pages 9-10, 14 November 2011.



$$\begin{array}{ccccccc}
 \frac{\textit{Input}}{\text{€}} & \times & \frac{\textit{Output}}{\textit{Input}} & \times & \frac{\textit{Outcome}}{\textit{Output}} & = & \frac{\textit{Outcome}}{\text{€}} \\
 3E: \text{ economy} & & \text{efficiency} & & \text{effectiveness} & & \textit{Value for Money}
 \end{array}$$

The three categories might be analysed together and separately. During the performance audits, always the auditors define, based on their information obtained during the preparation phase, the performance category offering the highest value added and the interpretability of the issue in question within the defined performance audit context.

Performance audit and the implementation of „value for money” principle have directly measurable quantitative criteria in the area of using public money and in the public sector in general, thus these evaluation criteria have to be defined in accordance with the given topic. One of the characteristics of the budgetary systems is that no adequate criteria and index-numbers are attached to the objectives to be achieved. For this reason, the success audits can define the level of concurrence of the actual status with the planned and defined objectives only on the basis of analytical, fact-finding and factual procedures adapted to the specific features of the issue in question (National Tax and Customs Administration, 2011).

## 5. Auditing aspects of state role and asset management

- Market analysis: With regard to the role of the state we should clarify who the buyers of the given service are and who are the suppliers in the given market segment, and – in the case of state ownership – who pays the costs and whether there is any competition in the given market segment. As we have already seen before, in the case of inherent state tasks, there is no possibility, or rational argument to outsource the task and/or to order it under market conditions. At the same time, a part of the public goods are not produced by the state, but, in stead, are ordered from the business sector, while it is possible that another organisation – also owned by the state – would be more suitable for the execution of this task (Voszka, 2005).

In general, the buyers of state services are the citizens as private individuals, or the companies of the business sector, but it may also happen that the state renders internal services to other state agencies as well. Typically, the citizens and actors of business life use these services, and they pay service fee, or procedural duty, or a kind of compensation, or contribution for them. Examples: public transport ticket, procedural duty at the land registry, court of registration duty, court fee, etc. The trend of new public management (NPM)<sup>21</sup> strongly emphasises, that in exchange for service fees, the state, being the service provider, shall keep in sight the interests of its buyers and shall render for them the state services at an adequate level and quickly, namely successfully, efficiently and economically. Though the trend of NPM has already been exceeded by a number of new models<sup>22</sup>, the new public management programme was the pioneer actor of interpreting state tasks in a transparent, economic and almost market way.

On the supplier side, the co-operation of business organisations is necessitated to perform the state tasks, if co-operation is not needed permanently, requires special skills (not available for the state), or the complex service can be purchased cheaper than the costs of organising and performing it by the state. Typically, the right to become a supplier can be obtained via public procurement tenders, for a

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<sup>21</sup> New Public Management, see, in more details: Value for Money in Government, OECD, 2010., see at: [http://www.oecd-ilibrary.org/governance/public-administration-after-new-public-management\\_9789264086449-en](http://www.oecd-ilibrary.org/governance/public-administration-after-new-public-management_9789264086449-en) (2011. 11. 15.)

<sup>22</sup> See in more details: (Pollitt and Bouckaert, 2011), and explanatory table 1.3 on page 22.

definite period of time, and under the conditions defined in the invitation for tender. The essence of public procurement is that the state, as a safe buyer, intends to receive in large quantities and at a low price, the products/services, in accordance with the rules of procedure defined by the law. Regrettably, as opposed to this, known practices have shown that public procurement procedures take unreasonably long time, and in stead of making the desired goods cheaper, they become more expensive, plus the whole procedure is not transparent and represents the hot-bed for corruption in Hungary<sup>23</sup>.

The state very seldom considers whether, under the new conditions, it is worthwhile to outsource, or order a service from the business organisations, or it should rather be rendered by the state. If the outsourced state tasks are continued to be rendered by one single external economic actor, the party rendering the services becomes lazy, and offers low level services to the buyers, and, in addition to this, the buyers have no choice and can not turn to another service provider when the advantages of outsourcing are not manifest; moreover, the outsourced service may easily cost more than it would cost should it be rendered by the state directly, via its own organisation. Consequently, it is the responsibility of the state to create and maintain competitive conditions (if it is reasonable and rational<sup>24</sup>) at the market of the given service, to stipulate adequate guarantees in the service contracts, and to control them together with the service level regularly at its partners (Kovács, 2011).

Consequently, the fees paid by the customers/buyers, the method of selecting the suppliers, and the rationality to obtain certain co-operation activities, products or services from another organisation should be investigated at the organisations fulfilling and/or ordering state tasks.

- Business planning and reporting: In a well organised company, business planning and reporting form part of the internal controlling system (Anthony and Govindarajan, 2009). What and how is planned in the beginning of a period and what their actual revenues, costs are in comparison to the plans, how the assets and resources in the balance sheet reports change, what is the trend of changes, and what, if at all, kind of intervention is need by the supervisory organ, owner, or asset manager – these issues are of vital importance also in the case of state owned, state operated and/or budgetary organisations. For this reason, the quality, structure and breakdown of the financial plan (budget, operational mainframe plan, etc.), the reality, economy, efficiency and effectiveness of the plans prepared by Hungarian National Asset Management Company or Hungarian Development Bank managing state property, and the background institutions reporting to the state are of crucial importance.

Implementation and realisation of the annual, operational plans and different development, investment plans and projects, project plans, and multi-annual business plans is reflected for the owners and managers in the interim reports, and standard reports. These reports indicate the differences, and the trends, thus the key actors shall deal, in merit, with the internal reports of the state owned companies managed by them. For this reason, the following issues shall be investigated: is there a controlling system in the subordinated, managed companies, does the controlling organisation operate, what is the quality, type and breakdown of the interim reports, whom are they sent to, what is the reaction to them of the addressees, what kind of decisions do they take based on these reports with regard to certain issues.

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<sup>23</sup> See: (Kovács, 2011.), the declarations of professional organisations, anti-corruption reports of Transparency International and Gallup, the pages of K-monitor.hu and korrupcio.lap.hu in this subject matter.

<sup>24</sup> For reasons of economy of scale (for example: small number of users), significant amount of money needed for the investment (e.g.: hospital), or due to the small size of the geographical region (e.g.: small local government) it is not always possible to involve and compete a number of service providers for the provision of a certain task.

- Remuneration of the management and performance indicators: The objectives and results are in harmony if the operation is successful, economically rational and efficiently uses tax money. In such cases, the managers might be paid bonuses. The conditions and title of payment are defined, besides the legal regulations, in the local agreements, contracts concluded with the managers, but they might also be the subject of annually changing occasional agreements or the resolution of the owners/shareholders. However, they must be written so that the content is clear and can be interpreted the same way by both parties (Voszka, 2005).

While the media and current opposition parties often question the legality of premiums and bonuses paid to top managers, this is a custom in the area of management (including public management and organisations rendering public services). Literature on human resources discusses in detail the methods, elements and conditions of top management remuneration. Information about their titles and amounts shall be put on the homepages of economic associations operating from public money and the respective information shall be updated and accessible for the interested parties, guaranteeing this way transparency and comparability.

In summary we can say that if property management and/or service provision are successful – namely the previously presented 3E are fulfilled – employees in senior management positions are entitled for a certain amount of additional money, extra benefits. In connection with this, however, the amount of the bonus, the objective criteria for payment, the party which measures performance (gets proof of the fact that the money can be paid) and approves of the respective decisions shall be clarified. On the other hand, it should also be investigated whether the set objectives and expected results do actually fall into the competence of the manager in question, can he/she influence them, whether the objectives set for the given period are challenging or realistic (e.g.: are they not too easy to meet) and whether these objectives really meet, indirectly, those of the organisation.

- Internal audit: While external audit of state agencies and private companies operating from tax money is executed by state agencies, authorities and offices<sup>25</sup>, internal audit is gaining an increasing importance. Efficient internal audit can contribute a lot to the successful operation of an organisation. By definition, internal audit is a tool and consulting activity giving independent and objective proof, which represents added value for the operation of the organisation and improves its quality. It evaluates and improves, by means of systematic and regulated procedures, the efficiency of risk management, control and management processes, promoting this way the realisation of the organisation's objectives<sup>26</sup>.

This activity, at the same time, promotes the maintenance of efficient, successful and economic operation of the organisation, since internal auditors execute performance controls, regularity checks, and system and IT security controls, and identify the critical points in the operation of the organisation with risk analysis.

While the Act on Budget and its execution order prescribes the mandatory operation of internal audit for budgetary organisations, this is worded – with a few exceptions – only as a recommendation for economic associations. The Institute of Internal Auditors (IIA) prepared a detailed documentation and standards on how an optional economic association should be audited internally. Organisation of this

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<sup>25</sup> Let us mention some of them: State Audit Office, Government Control Office, Government Commissioner's Office for Accountability, Office for Economic Competition, Authority of Equal Treatment, Consumer Protection Supervision, National Tax and Customs Administration, State Supervision of Financial Organisations, etc.

<sup>26</sup> The quotation is the definition of IIA, namely the Institute of Internal Auditors; their homepage: <http://www.theiaa.org/> (2011.11.10.)

activity and utilisation of the reports are the task and responsibility of the current top manager. For this reason, systematic operation of internal audit, utilisation of internal audit reports, the answers and responses given to the findings and proposals mentioned in these reports, and management decisions based on these reports shall be investigated in the case of companies using public money and performing tasks of public interest.

- Publicity and civil control: Access to data and information of public interest, existence and publicity of up-to-date information about the budget, and the possibility for the NGOs<sup>27</sup> to control improve the opinion and evaluation about public services and state role (Báger and Kovács, 2007.), (Jenei, 2008).

Civil control is nothing else but promoting access to public data for the interested parties, local communities and the opportunity for local public to participate in decision-making via local NGOs and raising awareness of the citizens about the available legal and non-legal tools in order to facilitate for them to utilise the basic institutions of democracy directly, and, above all, to question and report the decision-makers about the investments, development plans, actions and programmes directly affecting them.

At present, there are about 62 thousand registered NGOs in Hungary, but very few of them admit and undertake consciously and openly the need and intention to exercise civil control over local power and the state. Though a number of nationwide domestic organisations and, earlier, the National Civil Basic Programme itself, offers financial support, professional documentation and experts for this purpose, exercising civil control is only in its infancy in Hungary.

For this reason we should definitely examine in connection with the role of the state whether the decision-makers in charge involve the NGOs, representatives of local social organisations into the decision-making process, including the presentation of the preparation and reporting phase and the causes and consequences of it. Furthermore, it should also be controlled if the state organisation publishes information on its homepage about the use of public money, provides information for the public (including the media), and/or answers the questions raised (Jenei and Kuti, 2010).

We should note that Hungarian civil sector – as the third pillar – undertakes significant state tasks, uses, for the purpose, a large amount of private, corporate and foreign funding and also possesses an extensive network of volunteers (Hoós, 2002). In the present study, I do not deal with the control and audit of the tasks undertaken by or transferred to the civil organisations (NGOs), but I mention that the associations and foundations, via their public benefit activities, contribute to the state's role, and as such, their activities and operation shall be promoted and, at the same time, controlled.

## **6. Summary, closing thoughts**

In the first part of my study I present the macro-political role of the state, show a detailed picture about the role of the state in the economy, together with its methods of intervention and objectives. I have clarified that the state can exert an influence on the economy in different ways, depending on the objectives and ideologies defining its actions.

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<sup>27</sup> Namely: foundations, associations, their alliances, which perform their control and audit activities in the given professional field from a different perspective, along different interests, in accordance with their own professional devotion and mission, presumably, for public benefit (there are counter-examples as well!).

On these foundations, I analyse, in the second part of my study, the performance criteria of state services provided by state companies and budgetary organisations from the perspective of efficiency, economy and effectiveness or success.

Finally, in the third part of my study I describe control elements and activities, by which the economic associations and budgetary organisations can contribute to efficient and effective operation presented earlier. Such tools and methods are: market analysis, internal audit, planning and reporting systems, and exercising civil control over the operation of organisations.

In my opinion, this way we can better understand and test the cost-saving nature of modern state, and the conditions for service-providing, streamlined, successful state role and asset management offering public welfare.

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