

Chapter 1

Directions and Differences of Local Changes

by

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Decentralization: Experiments and Reforms

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1. Introduction

The collection of descriptive papers in this volume is the first product of a three-part series analyzing systems of local government in the postcommunist countries of the former soviet bloc. One of the most important elements of the transitions taking place in the 1990s is the establishment of new democratic municipal systems and intergovernmental relations. This process has been continuous, which is why this comparison is to be used not only as a source of information, but also as a collection of lessons for other countries in the region.

The group of countries scrutinized here belongs to Central Europe—this geographical category being interpreted in a wider sense, including the Baltic states (Latvia, Lithuania, Estonia), the countries of the so-called Visegrád group (Poland, Czech Republic, Slovakia, Hungary) and Slovenia. The selection is not meant to create absolute categories; rather, the grouping is based mainly on practical issues that will be elaborated below.

The method utilized by the authors of the volume is mainly descriptive, which seemed to be most useful at this stage since even the most basic relevant information on public administration reform is lacking. Based upon the first publication by the Open Society Institute on these topics [ILGPS 1994], this volume attempts to provide updated material on the progress of local government reform processes in the region. This introductory study also aims to find common characteristics in eight Central European countries actively transforming public administration and, if possible, in the structural features of these developing systems. It is hoped that such an exercise may be relevant to other countries in understanding their specific transformation processes. Simultaneously, this analysis hopes to identify the different models used and the typical obstacles that have arisen in the process of building new local democratic institutions.

The reform of public administration cannot be analyzed without considering systemic transformation as a whole. However, rather than linear theoretical characteristics of transition, the analyst is faced with a chaotic oscillation of issues and events due to the political, social and economic upheavals of Central and Eastern Europe in the 1990s. Although its main features can be summarized relatively simply for the whole region, in an investigation and comparison of a particular process, the responses of each country to specific challenges are quite different.

Reform of local government is an essential part of the transformation of political systems. It is an element of basic political change, as well as a condition of and contributor to economic

development. Restitution of property and the introduction of various forms of privatization are very important to the creation of new market institutions. The grouping of countries selected here for investigation seemed to be practical due to the similar level of economic transition they have reached, though direct conclusions on the quality of public administration and local democracy thus far cannot be drawn based on this characteristic alone. Thus, this introduction hopes to provide a normative basis for the following country-by-country descriptions.

2. The Group of Countries

The selection analyzed in this volume is concentrated on eight countries previously belonging to the communist bloc, which are, broadly speaking, historically and currently similar in political and economic development. Geographically, the group forms the western border of the formerly political “Eastern Europe.” Of course, this is not correct in an absolute way; East Germany is omitted due to its special status evolving from German unification. But our selected area consists mainly of two parts—the Baltic states and the narrower “Central” Europe—plus Slovenia. Six of the group—Slovenia, Estonia, Latvia, Lithuania, Slovakia and the Czech Republic—have new or renewed independence. Only Poland and Hungary have been preserved in entity and integrity from the former period. All eight are unitary countries. Common but not necessarily exclusive features of the group follow:

- market-oriented economic development after 1990;
- political democratization and pluralism;
- strong aspirations towards and a relatively strong possibility for European Union (EU) membership in the near future;
- preparation of and progress in introducing major social reforms.

Table 1.1
General Data on Central European Countries

Country	Population [millions] 1995	Surface Area [thousands of square kilometers]	GNP per Capita: Average Annual Growth [%] 1985–95	GNP per Capita [USD] 1998	Average Annual Inflation [%] 1985–95	Inflation [%] 1998
Estonia	1.5	45	–4.3	3,390	77.2	10.6
Latvia	2.5	65	–6.6	2,430	72.5	4.7
Lithuania	3.7	65	–11.7	2,440	—	5.1
Poland	38.6	313	1.2	3,900	91.8	11.8
Czech Rep.	10.3	79	–1.8	5,040	12.2	10.8
Slovakia	5.4	49	–2.8	3,700	10.6	6.8
Hungary	10.2	93	–1.0	4,510	19.9	14.3
Slovenia	2.0	20	—	9,760	—	8.0

SOURCES: The World Bank, *World Development Report* (Oxford: Oxford University Press, 1997), 215, 217, 247, and (1999), 230–231; *Central European Economic Review* (September 1999): 26–27; Wiener Institut für Internationalen Wirtschaftsvergleiche, *Handbook of Statistics: Countries in Transition* (1995), reprinted in *Felzárkózás Európához* (Budapest: Központi Statisztikai Hivatal, 1996), 49.

Table 1.2
Gross Domestic Product of the Economies of Central European Countries

Country	GDP per capita [USD] 1998	GDP Growth [%] 1998	GDP Growth [%] 1999 estimate	GDP Growth [%] 2000 estimate
Latvia	2,560	3.6	1.0	2.0
Lithuania	2,892	5.1	0.5	2.5
Estonia	3,447	4.0	0.5	2.5
Poland	4,075	4.8	3.5	4.5
Czech Republic	5,350	–2.3	–1.2	2.0
Slovakia	3,741	4.4	1.5	2.5
Hungary	4,676	5.1	3.9	4.0
Slovenia	9,899	3.9	2.7	3.5

SOURCE: *Central European Economic Review* (September 1999): 26–27.

Some comparisons can be drawn from the aggregate statistical data presented in tables 1.1 and 1.2. The state of economic development is rather common for these generally small-sized countries (Poland being an exception). However, the levels of gross national product (GNP) substantially differ.

Very relevant is economic downturn during the transitive period, which is evident for every country, teamed by a relatively high rate of unemployment. Such data demonstrate the expenses of structural change. The inflation rate for 1997 compared to that of the former decade, although still high, shows that these countries have experienced recovery from the shock of changes in economic and fiscal policy.

Another basic analogy is that the more consolidated and wealthy countries of the late federations have fared well despite amputation from their former political and economic systems. The collapse of the Soviet Union, Yugoslavia and Czechoslovakia also demonstrates the clear will for autonomy in this region. In the 1990s, the traditional forced integration of the past was avoided.

As quoted so often, the introduction of political transition was very rapid. Poland took almost ten years; for Hungary, ten months was enough; in East Germany, ten weeks; and in Czechoslovakia, ten days of “velvet revolution.” The key contextual factor of course was the waning of the Soviet Union’s influence. After the political upheavals of 1989 and 1990, all of the countries in the group addressed economic and other systemic bases for the transformation with various levels of intensity.

The political process has been continuous in the overwhelming majority of these countries. Therefore, western involvement has had crucial effect, including influence on the choice of models for building democratic systems. However, a new, nearly unprecedented model of and framework for integration has become increasingly attractive in these countries—namely, towards a “western-type Europe.” Escape from former bonds has not seemed to hinder the pursuit of new opportunities for cooperation. Nowadays the common foreign policy objective among the countries discussed here is the desire to join the EU. The components of such strategy affect particular areas of internal policy as well.

The introduction of a new democratic and plural model at the local level was very important as the first step of transition. The European Charter of Local Self-government summarized the minimum requirements for preparing and establishing new institutions, which promoted the widely accepted essence of such development from both a structural and legal point of view. Most of the countries in this region realized the importance of adaptation to these principles and signed the charter in the mid-1990s, affirming the desire to follow the West European tradition of local governance. The process is not simple in every aspect, although the charter allows some flexibility for prospective member countries. Professional and public debate ensued in many countries of the region concerning whether the charter’s prescriptions really ensured coherent development or if the moderate cosmetic changes necessary for compliance actually disguised traditional corruption and antidemocratic phenomena.

Such debates are interesting from another aspect as well. The whole process of reform exhibited numerous changes of direction in the 1990s. As will be demonstrated later in this study, attempts to group countries according to the systems they have adopted are quite problematic, since such analogies will probably become defunct as the trajectory of transition continues to shift country by country in the coming years. In all of these countries debates have been nearly continuous concerning the question of which route of modernization to follow and which model to adopt. Thus, identifying “typical” features and creating subgroups should be understood as temporary. A better way to a more thorough analysis is to typify national reforms and the route of attempts as a whole.

Thus, when studying the direction of administrative reform, models vary not only country by country, but period by period. National directions for public administrative system building are dependent on policy preferences to a large extent. Due to the fluid and quite sensitive political balance existing in Central Europe, changes in conceptual issues are made relatively often concerning local government reform. This statement can be illustrated by three examples.²

1. According to some authors [Regulska 1996, Grochowski 1997] the local reform and democratization process in Poland reached stagnation in the mid-1990s (though some local experiments with new models continued), breeding disillusionment. Debate was continuous during this period concerning the appropriate number of levels for the territorial administrative and local government systems. Territorial division before the last crucial change in 1999 instigated further discussion among political factions, and as a consequence, the draft version of the reform program was amended, altering the number of tiers and their governing rights. Thus, crucial politicoadministrative changes occurred while the transformation was in process.
2. Another example of “internal” criticism resulting in a subsequently altered trajectory for transition is found in Lithuania. Crucial reform revisions were initiated in 1995, replacing the formerly conceptualized two-tiered system of local government with a single tier. Additionally, strong criticism emerged concerning the comprehensiveness of change. According to Gazaryan [1995], the development of local government in the first five years resulted in neither the improvement of public services nor the involvement of the populace in decision making.

The motives for such criticism are two-fold. First, discussions concerning the administrative structure of the system are of particular importance to party factions that view these changes from the standpoint of influence gain or loss. Second, those who have found the reforms to be insufficient feel that there is a “democratic deficit” in the process; citizens’ opinions have not yet been heard and incorporated into the local government reform plan.

3. Finally, the Czech example should be mentioned. This country quite radically has reformed its institutions and mechanisms of local democracy. Municipalities have taken over all self-governing functions, and the division of power is quite clear between state administrative and local government offices. However, debate on the establishment of an intermediate government tier has ensued for a decade [Vidlaková 1997]. Subsequently, from the year 2000, this concept will be realized in practice.

Despite relatively often-changing conceptions, there are common directions and different models that may be classified. Nevertheless, strong coherence and consistency should not be expected in the long run.

3. Directions

3.1 Political Environment and Legal Basis for Reform

Local reform is an important part of more general systemic transformation. Theoretically at least two basic models can be implemented to achieve an operational self-governing regime. The first is based on a national constituent process from the very start. In this model, a framework

is created while simultaneously initiating procedures based on new principles and institutions. A constituent assembly passes basic laws on the division of power at each level of government. The period for this preparation typically is quite limited due to the vacuum of legitimate power; former institutions and officials are not expected to contribute to the introduction of a system that will threaten their own positions, so elections are realized as quickly as possible in order to establish new structures with full legitimacy. The parliament can then continue to develop, supplement and improve the elements and mechanisms of the system.

The second purely theoretical model is that after a political vacuum or publicly accepted interim period, elections are held in accordance with democratic regulations passed by the former parliament, and then the newly elected parliament establishes the division of power based on institutions and operations typical of democratic systems. In this scenario the early stages of local government development follow a consistent, legitimized process. The first step is the adoption of regulations on local elections and the basic framework of local governance. After the democratic establishment of local institutions parliament, municipalities and other authorities contribute to the development of other elements of the anticipated system.

The first model is more logical from a political point of view as it addresses the problem of legitimacy from the very beginning of the shift in power structures. In the second, the starting position depends very much on the political setting, personality of leaders, et cetera, and as a result, there is no guarantee that reform will be successful. However, after the first, generally precarious stage (that is, the establishment of rules for truly free elections by the former, nondemocratically elected parliament), chances for systematic development are better.

Naturally, in different countries these models were realized with unique national corrections. Specific elements and compromises altered constitutional frameworks and basic institution-building processes. One of the most important influences in this particular group of countries was obtaining independence. Secession from former federations very much affected the process of institutionalization of local governance. However, most of the necessary elements of change have been realized since the late 1980s.

A possible commonality concerning the above mentioned models and their different versions is that a “critical weight” of change is necessary before systemic transformation can be realized in the building of democratic state and local government. The first stage can be reached utilizing different schemes and gradations, but in the end a number of crucial elements must be present.

Common issues of basic legislation critical for democratic local governance are as follows. The first package consists of:

- constitutional changes (either a new constitution or crucial modification of the previous one);
- acts on local government coherently codifying the basic rules of the new system, including two major facets—structure and operational rules;
- acts on free local elections, defining the electoral system and process.

The second common package of legislation establishing the scope of local government includes:

- civil servant and public employee acts;
- acts on the scope and duties of public administration at each level;
- acts on property transformation.

Property transformation was one of the most important elements of change from communism and state socialism to the market economy and democracy. Such transformation necessitated crucial changes in the structure of formerly monopolistic property relationships. This process affected local governments in various respects, but most importantly, many of their assets were privatized, and they became true owners liable for their actions.

Basic legislation is also necessary for specific systemic issues, such as:

- the status of the capital city,
- financial regulation of local governments.

The timing of financial regulation is crucial to the extent of transformation. Without new budget mechanisms, rules of taxation, guaranteed and independently acquired revenue, local autonomy cannot be realized. The real power of local authorities depends very much on financial autonomy and liability coupled with the opportunity for independent decision making.

These different packages of legislation provide the minimal legal changes necessary to create an appropriate environment for local governance. The group of countries analyzed here realized them by the first half of the 1990s. This newly created common “tradition” is the basis of their systemic comparison.

Apart from legislation, change in personnel is necessary. There are different dimensions concerning this issue in the transformation of public administration in Central Europe. The first is replacing individuals in positions of influence. Former representatives, leaders and officers hindered the implementation of more radical change in the new democratic systems. Strong demand for reform existed, but the transformation plans adopted were gradual (which is admittedly a product of transition as opposed to revolution). Thus, in a relatively large number of cases, former local officers and personnel retained their positions in these countries in the early 1990s.

Concerning party politics, independent candidates (often former communists) typically won mayoral and council elections in small settlements; various parties more strongly influenced elections in large settlements. Officers were not as affected by such political battles as were councilors, but professional leaders—such as chief executives—faced general mistrust because they served under the previous system. In some countries political conflicts on the national level were detrimental, resulting in difficulties for and among local councilors and professionals after electoral reform.

Legislation on civil service is a key element for the transformation of public administration. Laws were passed by the mid-1990s in most of the Central European countries and can be

expected in the rest in the near future. One of the most important issues is establishing a civil service system based on professional criteria that will break the former nomenklatura style of politics. It is also necessary to ensure a clear division between political and administrative influence and to regulate with greater precision politicoadministrative relations among higher offices [Verheijen and Rabrenovic 1999]—that is, mayors (elected politicians), chief administrative officers (appointed professionals) and staff. The general direction of development is to guarantee the political neutrality of staff and at the same time to defend professionals from political pressure. This is not easy even in local governments; due to the increased influence of elected bodies, their role is more important in the decision-making process for public administrative matters. Thus, this split and distinction is crucial. Politico-administrative relationships are different country by country, and in some cases, municipality by municipality.

Apart from civil servants, the responsibilities of public employees who administer schools, hospitals and other social welfare institutions that are owned or supervised by local governments also must be determined. Public employees must be guaranteed security and held accountable for their actions in order to ensure effective administration.

These legal regulations establish the basic conditions necessary for personnel to work in a multiparty environment. It is also necessary to regulate political bargains and agreements concerning politicoadministrative relationships. Finally, ethical codes for civil servants are being prepared in some of these countries. Corruption and bias are dangerous to transforming local democracies. New experiments on multidimensional regulation of civil service are a recent phenomenon of the Central European transition.

Guarantees of local autonomy are also among the basic elements of institutional change. Besides new structures, electoral systems and regulations are needed to ensure and protect democratic rights. The state also must establish new, strictly regulated instruments to control the legality of local government activities, including:

- juridical protection;
- legal supervision;
- financial activity regulation (audits);
- debt and bankruptcy regulations.

The development of financial control mechanisms is in progress. The new systems adopted are based on various financial principles. Regulation is not as detailed or predetermined as it was under the previous system: no longer are revenues connected to prescribed targets; rather, spending is regulated by local strategy and is decided by elected bodies. However, greater autonomy must be coupled with financial control. The influence of the central government has been restrained, but its remaining function—regulation—should be rigorous. Institutions and mechanisms have been established to serve this purpose, including independent auditors commissioned by local governments, debt financing, bankruptcy management, et cetera.

The broadening of juridical protection ensures that every activity of government—both state and local—can be appealed in court. Other authorities legitimized by parliamentary regulation must check supervisory powers and decisions of elected bodies. The detailed rules are different case by case, but the defense of the rights of self-government through such instruments seems to be a common development in this region. Such control is usually affected only in cases of violation of law, thus protecting decision-making autonomy of self-governments.

The details of new systems of checks and balances and legislative control have not yet been perfected, but rights and limits established constitutionally have been in effect for years. These elements are very important to the preservation of the democratic political and institutional changes achieved by public administrative reforms.

3.2 Property

Partnership between the public and private sectors began in a rather unique way. The first step was spinning off private activities from the public sector. Many enterprises in retail trade, public catering and consumer services were privatized, clearing the profiles of local governments of purely competitive activities and subsequently allowing them to focus on the provision of public services. In most countries, this step was undertaken in a rather rapid manner at the very beginning of the transition in lieu of national campaigns led by privatization agencies. The success of this process is debatable; the social consequences, which will be addressed later, have been very high in some countries.

Another facet of the privatization process was a devolution of formerly state assets to local government ownership. Typically, such transfers included public enterprises and public works such as water supply, public roads, parks, et cetera. At first this involved simply renaming the proprietor; however, in the case of enterprises, it was also necessary to establish public ownership to enable municipalities to sell off such property to the degree and in a timeframe that was most beneficial.

In the next stage, under particular market and legal conditions, it was possible to privatize new public companies shared by local governments. This process has not yet been concluded. Typically, services such as particular lines in the city transport network or specific functions fulfilled for a definite customer group were privatized by the end of 1990s, but the majority of service provision remained public, or private providers received shares—and sometimes even majority ownership—in enterprises providing public services. Others worked more or less as in-house service providers, closely affiliated with local governments or owned by them. This progress seemed to move more rapidly in some countries—such as Poland and Hungary—and more slowly in others—such as Slovakia and Lithuania. In the latter cases, legal restrictions allow the sale of shares only up to thirty percent. Consequently, notwithstanding different levels of progress in the market of public service delivery, privatization policies can be quite different country by country.

At this stage perhaps the best example for comparison of privatization policies is housing. Privatization in its strict sense was realized in the communal apartment sector; significant proportions of apartments were sold to tenants or to former owners. While such privatization devolves responsibility for some services to private owners, additional public responsibilities can be created of a completely different nature and with which local governments have little if any experience.

At the beginning of the transition communal flats were transferred to local governments. Concurrently, central governments ceased to address general housing problems. Under the communist regimes, the social functions assumed by the state were not necessarily realized to their fullest extent; massive housing construction waves with disregard to quality and maintenance are testimony to this. When responsibility for housing was transferred to local governments, all preexisting problems were assumed at the local level. On the whole, no other solution but privatization was feasible, though there were differences in methodology and timeline among countries.

Local governments—like the central governments—aspired to relieve themselves of the burden of many tasks that were formerly considered public responsibilities, such as tenement renovation, comprehensive housing maintenance and the assumption of public utility fees. Considering that these tasks were not fulfilled even when they were public responsibilities, such desires were justified. Thus, a typical form of and principle for privatization emerged: the sale of formerly public assets resulted at once in decreasing public responsibilities and narrowing the range of collectively provided services. Such a clear and original form of privatization is called “raw,” referring to the fact that, at first, only a restriction in the extent of public responsibilities arises.

This technique—in which the state leaves a public sector—is not unknown in foreign practice. In the 1980s the proportion of local government-owned rented apartments was reduced in Great Britain in the same manner, providing the tenant the right of purchase along with certain preferential benefits.³ Regardless, Lithuania, Slovenia and Hungary were particularly ambitious from the beginning. In Hungary—the least radical of the three—by the mid-1990s the proportion of privately owned residences was greater than that of many West European states.⁴ The other two countries were even more radical, even when compared in an international context. It is necessary to add that they are not alone in this region; in some Southeast European countries (Albania, Romania, Croatia and Bulgaria) the proportion of apartments sold to residents was very high, and this type of privatization was accomplished extremely rapidly [Hegedüs and Tosics 1998, 151].

In the other subgroup, the extent of privatization thus far is not very high. In these countries, too, the possibility to privatize housing was established, but there was no centrally determined obligation for local governments to sell dwellings to tenants or former owners. In these cases local governments have more policy options; they can decide to what extent to privatize as well as strategies for support and development [Hegedüs and Tosics 1998, 166].

In both models the most important goal is to find a balance between the private and public sectors that will serve (and provide resources for) local preferences concerning the maintenance of property and social welfare. Local governments escape from the responsibilities of the cost and maintenance of the public housing sector through privatization, but they must be prepared to address the social fallout of such policies. This is even more serious when taking into consideration that low-income families are in the majority among new owners [Hegedüs, Mayo and Tosics 1996, 39]. A strategy to support social welfare is necessary concurrent to privatization.

Privatization has bred social inequalities among inhabitants, regions and types of settlements. Symbolic prices for real estate were established in order to quickly and successfully achieve privatization; new owners could then immediately sell their property at market prices. Those who received high value property at low cost obviously benefited greatly, but flat owners in dilapidated buildings awaiting renovation realized only after making their purchases that they were “sitting on time bombs.” The low purchase price was only the first of many major expenditures. The financial situation of such residents often precluded further investment or renovation; rather, these victims often could not cover maintenance costs that increased due to the privatization of housing. Furthermore, state rental flats were concentrated in cities, especially in the capitals, where real estate is more valuable and market turnover is high. The inhabitants of villages had limited access to valuable real estate, and their opportunities to sell property for a profit were severely limited. Finally, the process of privatization itself favored those who had access to decision-makers and thus the ability to influence the conditions, prices and accessibility of property. Thus, the social aspects of privatization must be taken into consideration. Regardless, this process is necessary to the transformation of the character of local government from a functional point of view.

The general conclusion concerning privatization and public responsibilities is that not just the development of the private sector but also the role played by local governments must undergo transformation.

3.3 Local Service Institutions

A change in the attitude and operation of local governments was necessary as a consequence of the introduction of market agents and public participation. The fulfillment of general functions such as water supply and basic or secondary education necessitated management through institutions and companies subordinate to the councils. Motivation for this is two-fold: first, the effect of the private and third sectors grew in the public services sphere; second, financial cutbacks inspired customers to contribute to the costs of services or to undertake their delivery to the greatest extent possible.

The difference between declarations on the provision of public services in western neoliberal policies of the 1980s and those in this region is that the reduction in the extent of local functions is more radical in the latter, and policy formulation as a reaction to these challenges is much less

developed. Thus, there is a danger that the necessary reduction in expenditures is implemented within the same yet narrower structure of the system.

It is clear that in crisis cutbacks are more rapid than the restructuring of systems of provision. However, there are important indications that new governance models are being realized, which are summarized below.

1. Differentiation in communal service delivery

In the communist system, budgetary institutions directly influenced by councils exclusively delivered public services. Now real owners are on the market—or quasi-market—for these services. In Poland and Slovenia specific laws on communal economy regulate different forms of service delivery; these also exist in Hungary and, to a greater or lesser extent, in all countries of the region. After the devolution and/or privatization of formerly state assets in public works, the following structures can be distinguished:

- commercial law companies, involving as shareholders one or more local governments and, eventually, other private owners;
- entities entrusted by contract;
- other labor organizations directed by cooperating municipalities;
- budgetary institutions with greater autonomy.

Commercial law companies were established after the devolution of state assets. Shares were granted to local governments, which subsequently were entitled to sell them off. This situation produced various outcomes for different municipalities. Larger local municipalities assumed the position of majority owners, smaller ones retained less influence, and some practically assumed the position of clients that contracted provision of services with providers.

Those local governments that own enough shares to influence the strategy and operation of the provider have the opportunity to manage their area as a “concern”⁵—that is, as indirect managers. This type of management is absolutely different from the previous method of administration. The crucial change here is more independence for the firm. This form of ownership also makes it possible to raise revenue and capital outside the local budget.

Contract management is based on public–private partnership, where public functions are contracted out by local governments to private firms. Services are delivered directly by these providers and are financed by municipalities (the customers). In this model public functions remain the responsibility of the municipality, but influence is restricted in comparison to direct provision.

Public opinion is ambiguous to the new private roles in public service provision. From one side it is accepted as a necessary consequence of the decreasing role of the state. Regulatory guarantees are expected to increase, especially in areas such as public procurement (Poland, Slovenia,

Hungary, et cetera). On the other hand critics are strongly against bias and corruption. Detailed rules and ethics of representatives and decisive bodies have not been elaborated yet.

Cooperation among municipalities and between communities and civil or private organizations is another new type of relationship; the hierarchy of the central state and communist party organs in each country formerly determined bureaucratic integration. As a result, challenges and conflicts now strongly affect systems with numerous, small local government units, which is exemplified in the Czech Republic, Hungary and Slovakia. On the one hand, municipal governments prefer forms of provision in which tasks are fulfilled independently, even if the costs are higher and the quality of services is lower. On the other hand, local governments have become involved in associations and civil initiatives when their interests can be better served only through such cooperation. Service providers (schools, public works companies, et cetera) also cooperate without the patronage of local governments.

The remaining budgetary institutions, though directly supervised by municipalities, have new modes of operation. Their positions increasingly are defined as direct labor organizations that are clearly separated from the local public administration. There is no symbiosis in management in spite of municipal supervision. This form of service provision is regulated in Slovenia, for instance, on the basis of the German model (*Regiebetrieb*). Although the legal methods of influence and operation of institutional mechanisms are different, the role of local governments is similarly decisive, as in the case of companies fully owned by them.

The social consequences of shedding local government functions were decisive in determining the final form of service provision. Social conflicts and inequalities were generated by the radical limitation of communal housing, public cultural services, subsidization of sport facilities, social health care, et cetera. Many times it was necessary to sell assets and discard functions because they were impossible to finance. In such cases there were no possibilities for cooperation between private and public providers; private actors wholly assumed such activities when local governments simply stopped providing the service.

The existence and broadening of different forms of service delivery are very important. As mentioned before in some of these countries various alternative forms have been introduced by legislation. This fact encourages the development of a new public managerial attitude.

2. *Desired quasi-market elements in social services*

Market orientation has been reluctantly embraced in the delivery of social, educational and health services. Common phenomena have emerged. First, different types of providers are operating, but in these fields the overwhelming majority of institutions, such as schools, hospitals and social care homes, belongs to the state sector, presenting new challenges for state subsidies and control. For instance, a neutral attitude is needed to manage grant systems; the same

conditions must be guaranteed to providers regardless of sector. This attitude is most developed in Slovenia, where specific laws regulate basic principles of subsidization, especially regarding social care. In Hungary general rules have been absent for a decade, but the financial elements for the main social service acts exist. Conversely, in Slovakia district offices as arms-length agencies manage primary schools, which have the right to participate in decision-making concerning the allocation of subsidies. Many of these rights are applicable to nonstate schools as well. In other cases district offices are prohibited from influencing schools. What is particular to this country example is that state functions refer equally to providers whether they are private or state owned.

The adoption of such an attitude is increasing, which is necessary to encourage competition among providers and sectors in—virtual—market circumstances. This type of phenomenon is apparent in Hungary in primary health care, in many countries in establishing systems of social service providers and in Slovenia in creating rules of concessions in this sphere.

All in all, major reform in the social sectors has not been implemented; rather, competition has emerged in limited fields of service delivery. However, its emergence is quite important in itself to ensure future development. Elements of market orientation are emphasized in all of the concepts of restructuring and reforms, but their realization thus far is limited.

3. *Towards European integration*

Another incentive to development is integration of the region with the European Union. The message of the *acquis communautaire* in the field of public services again is the guarantee of equal conditions for providers and open competition. This philosophy favors the strengthening of market conditions and transparent subsidization. Policy preferences and the framework of policy orientation are influenced by the expectations accepted by joining countries.

The role of regulation in particular has been emphasized. Public procurement acts were passed in Poland, Slovenia, Hungary and Lithuania due to strong political intentions to join the EU. Introducing free competition and ensuring transparency are preconditions to the transformation of the formerly monopolized public sector. Other regulations have been adopted by parliaments in order to promote market orientation; in particular, laws protecting the consumer in the sphere of public goods (Slovenia) and on concessions (Hungary, Slovenia, et cetera) are important in this field. Nevertheless, this process is very much in progress; for instance, concession acts and rules on public procurement have been in effect for years, but their extension to public service activities has not been clarified. Transparency too has not been introduced to the fullest extent.

Most importantly, these changes and challenges influence the transformation of the *modus operandi* of local government. An attitudinal adjustment from the traditional methods of administration to true management is necessary; inward-looking focus must evolve to consider the wider interests of civil society.

4. Reorganization of Local Government

In the following chapters key issues will be investigated identifying common features in the eight selected countries and explaining the variables that affect the transitions and produce specific characteristic phenomena. Based upon the earlier, basic description of change [ILGPS 1994], this volume will provide comparison in a more analytical manner.

The basic theoretical questions [Baldersheim et al. 1996] of local governance are oriented around the following issues, which have been selected here for comparison:

1. type of basic units;
 2. tiers of the administrative structure;
 3. internal organization of municipalities;
 4. evolving elements of change, such as the development of responsibilities and financial management.
-
1. The effectiveness of the basic units of government depends upon municipality size [Dahl and Tufte 1973; Newton 1982]. Large units better utilize systemic capacities for the effective provision of public services. Small ones provide greater opportunities for citizens to participate directly in governance, and thus public needs are more clearly determined.

According to this classification, Page and Goldsmith [1987] distinguish between integrated and nonintegrated systems among West European unitary states. In integrated systems, local units are adjusted to the supposed optimal size for the effective provision of public services (as in the Anglo-Saxon and Scandinavian systems). In nonintegrated models local autonomy and the framework of service provision are divided. In the latter, many small local governments units exist—in the extreme case, each settlement has a municipality of its own—and common functions are fulfilled with the assistance of integrative institutions. This is the tradition in France and in the majority of the Mediterranean countries.

It is possible to categorize the systems of the transitive Central European countries in this way [Horváth 1997]. The choice of which model to follow was based on decisions made in the process of transformation. However, their consequences must be faced as well; this choice has far-reaching ramifications and thus is crucial from the point of view of systemic comparison.

2. The next issue is the number, functions and relationships of tiers in local government systems. This was one of the most broadly discussed issues in this group of countries throughout the 1990s. A majority chose radical solutions—that is, to drop the middle level. Some later corrected this decision to some extent. The real relationships and instruments of these tiers will be investigated based on symbolic political steps and decisions.

3. Core internal organizational issues address the relationships between:
 - bodies of elected representatives (councils) and officials;
 - the mayor and the representative body;
 - the mayor and the chief administrative officer.

American professionals and sociologists have elaborated upon these questions. The parliaments of Central European countries selected models from well-known international variants. Another group of core issues is oriented on different aspects of local politics, like rules on local elections, party mechanisms and other operational questions [Byrne 1981].

The investigated countries chose both items with an understanding of the consequences that one or the other alternative would have on their further selections.

4. In contrast with core items, the evolving elements of reform have not been elaborated in some countries yet. Rather than permanent decisions, taking into consideration the lessons learned from implementation is necessary when progressing further. For instance, the development of intergovernmental fiscal relations [Musgrave and Musgrave 1989; Mikesell 1991] has been pursued for many years. Apart from formal decisions, practical development and analysis of the economic situation is needed. Complex regulations cannot be built on institutions without taking experience into consideration.

The developing system of public service provision is another evolving element of the transition. Although the basis for crucial change has emerged, the process itself will determine future directions. Conflicts concerning privatization, public contracts, et cetera have arisen and will continue in communities and the national political arena.

4.1 Systemic Models

Models of municipal organization define interactions among the deliberative body, its committees, the mayor, the chief administrative officer and the office. These involve the relationships between elected and executive organs, between decision making and implementation. In general, the responsibilities of each have been defined in these countries, and basic frameworks are regulated by central and local rules. Additionally, systems of local elections have been organized and accomplished democratically and effectively.

Such regulations are the core and most stabilized aspect of reform to date; they comprise the minimal necessary content for crucial change and are integrally important to the establishment of a democratic system. Generally, the European Charter of Local Self-government passed by the Council of Europe summarizes the framework and conditions of organization building. All of the countries discussed here adhere to its expectations, and most have formally ratified this document.

4.2 Variants of Transition

There are three main routes of development of institutional transition at the local level in this part of Europe. The first two scenarios can be called “coherent models.” Typically at the time of the first free parliamentary elections, local elections were held in order to establish new legitimate representative bodies. The logical problem here is that legitimacy of the new parliament is based on electoral regulations and basic constitutional changes adopted by the former, nonlegitimate (that is, nondemocratic) regime. The Polish example is the clearest from a political point of view: local elections occurred before those for parliament, and the legitimacy of local bodies was established by an earlier amendment of the constitution. This was possible because in June 1989 partially free elections were held resulting in the victory of the opposition, yet including representation of the former regime [Regulski 1999, 5]. This leadership, led by a noncommunist prime minister, was able to negotiate the basic rules and conditions for a new democratic system.

Hungary provides a coherent model from a professional-technical point of view [Davey 1995]. In 1986, towards the end of the former regime, a local financial reform program was adopted. A system of block normative grants was introduced, replacing the former individual distributive system. These grants were supplemented by special grants allocated on the basis of parliamentary decisions. To a lesser extent, the system of revenues also was reformed. Finally, a unified system of personal income tax made it possible to predetermine local revenues. The creation of such a fiscal basis was followed by political transition at the end of the 1980s. The Local Government Act was one of the first decisions introduced by the newly elected parliament, together with a system for local elections. Thus, when these elections were held, a truly reformed system was able to commence operations based on new financial mechanisms rather than inheriting those of the previous regime. The whole process was logical and appropriate for building an absolutely new system.

However, a third scenario is more typical in the region, which can be called the “gradual model”: only the most necessary elements for the future regime were introduced under the former circumstances. This system of transition was based on graduated legislation. Typically the first step was holding local elections according to former procedures but under new conditions, in which multiple candidates competed and new parties had the opportunity to participate.

Estonia provides such an example. When the first local elections were held in 1989, the requirements for citizenship had not been clarified, and all of the conditions of the new system were missing: structures were underdeveloped, functions were undefined, financial and other economic bases were absent. Consequently, the subsequent steps of reform followed a route that was prescribed by political pressures; thus, temporary political and legal techniques were adopted, including:

1. transfer of authority without altering elected council bodies—this technique restricted the former positions of executive committees or council leaders that were directed by communist party committees;

2. elimination or restriction of former executive committees—these narrow bodies formerly were mobilized instead of the council for important decision making and thus were more influential than the council itself;
3. abolition of the competence of the upper level of territorial government—formerly, the district, county or another regional government was the superior authority; elimination of this level transferred autonomous decision making to the local level;
4. transfer of property to local governments, mainly state property companies—although initially having little relevance due to the lack of a market in the public sector, this was an important technical step towards more complex legal regulation.

These technical changes were, of course, not sufficient to alter the basic relationships among institutions, but more complex reforms followed from them. The establishment of the new system occurred progressively; that is, many crucial modifications to the core of the system were made on a continuous basis.

Finally, national determinants of the local transition process naturally were very influential. The collapse of the former Soviet Union was a key element in the development of the Baltic states. The split of Czechoslovakia and the former Yugoslavia was an essential factor affecting issues of autonomy. The reemergence of local identity was strongly supported by nonintegration at national levels mainly during the period of institution building. Many conflicts arose generating from tensions at the local level. For instance, minorities and a lack of representative institutions for them resulted in conflict and continuous pressures. These problems are resolved or at least reduced with the introduction of institutional reforms.

4.3 Alternatives for Local Elections Systems

Basically two systems of elections can be distinguished in this region: majoritarian and proportional. In local elections, a unified system exists for integrated models, where the size of local governments is approximately equal, such as in Lithuania. In other cases, more than one electoral mechanism is utilized.

In Polish municipalities with fewer than twenty thousand inhabitants, a single majority system is in place; those with more than twenty thousand inhabitants utilize a proportional system. In Hungary the population threshold between the two methods is ten thousand, though here, the majority system is supplemented by compensation methods on a party basis. The threshold was stabilized immediately in Hungary's case, but in Poland the first two local elections used a forty thousand-inhabitant threshold for determining the method of election.

Parties and other representative social organizations are new to these systems. The electoral process was reformed to incorporate democratic regulations and techniques. Under these circumstances independent candidates have better access to elected bodies on the local level than they do nationally.

Table 1.3
Recent Local Election Outcomes in Central European Countries^a

Country	Election Year	Independent Mandates [%]	Total Party Mandates [%]	Victorious Party Name	Victorious Party Mandate [%]
Latvia	1997	88	12		
Lithuania	1997	—	100	Lithuanian Conservatives	34
Poland	1998	60	40 ^b	Electoral Action Solidarity	17
Czech Rep.	1998	55	45	Christian Democrats	11
Slovakia	1998	9	91	Movement for Democratic Slovakia	23
Hungary	1998	79	21	Hungarian Socialist Party	11
Slovenia		12	88	Liberal Democracy of Slovenia	23

- a. Information for Estonia not available.
 b. Local coalitions not included.

According to table 1.3 the proportion of party mandates is high in Lithuania and Slovenia. In Poland party involvement is also significant, though the figures presented are slightly misleading; the local coalitions and independents calculated here actually have ties to major political parties.

Generally speaking, the extent of party influence depends very much on the size of municipalities and territorial units. Empirical research presents the following analogy: the larger the municipality, the stronger party involvement [Horváth and Péteri 1993]. In many countries the majority of the population lives in towns and cities that are also the bases of municipal governments in integrated systems. Party orientation of these urbanized areas is very important due to the weight of the affected population.

Parties have fewer supporters as a whole in Hungary and Latvia. A relatively high proportion of small units prevents party candidates from winning the majority of mandates. The example of the Czech Republic is also closer to this model, though the level of party politicization in local elections is relatively higher. The absolute exception is Slovakia, where despite the existing fragmented system—that is, consisting of many small municipal entities—party involvement is very high.

It is difficult to generalize the profile of local political party affiliation; there is not yet enough comparable data to analyze this subject to its fullest extent.⁶

4.4 Internal Organization of Local Government

All in all, organization building was easier than expected. The main forms of representative bodies and officials were established in a relatively short period in every transitive country and were quickly followed by new methods of operation [Council of Europe 1994]. Thus, some common characteristics may be emphasized here. However, it should be added that the relatively quick establishment and operation of such institutions does not necessarily preclude subsequent difficulties. These will be discussed thoroughly in the following chapters. Here the focus is on overall questions of development and social problems at the local level that closely influence the work of municipal organizations.

Elected council bodies are the highest decision-making organizations in local governments in every country in the region. Members are elected in general democratic elections. Representatives perform tasks through various forms, though mainly within the framework of committees to which the deliberative body often delegates power.

Types of executive bodies are different country by country. However, the alternatives all fall into the framework of democratic tradition; thus, this question is purely a technical one. The main difference that emerges is whether the executive organization established is individual or collective. Collective organizations, such as boards, exist in the Czech Republic, Latvia and Poland and are optional in Slovenia and Lithuania. These executive bodies are established through selection by the deliberative organ. However, in some countries, such as Hungary, there is still resistance to such organs; due to experiences with the soviet-type system, representatives fear the restriction of their power by an executive body.

The alternative is the individual executive organ—that is, the mayor. The mayor's position in some cases is as strong as the local government's as a whole. Usually, he or she is elected directly by the public. The mayor heads the municipal office assisted by a chief administrator, who is appointed by the representatives, generally for a nondetermined period. He or she is usually a civil servant. It is interesting that extreme organizational models, like that of the United States, in which a "strong mayor" and "city manager" work side by side, do not exist. Authority is also delegated among officers and elected leaders or councilors entrusted with special assignments.

Forms of direct participation exist in many variations. Due to the restrictions of the former regimes, newly adopted regulations are quite liberal. In addition to local referendums, other forms have been introduced, including popular initiatives, public hearings, et cetera. Sometimes constitutional limits were defined in advance, and the defects of these institutions emerged in practice.

4.5 Institutionalization of Ethnic Issues

Ethnic issues are related to our analysis only from an institutional point of view. Such problems are characteristic of the whole region. However, the dissolution of former federations more or

less resolved ethnic tensions in Slovenia, the Czech Republic and Slovakia. This is not the case in the Baltic states; due to ethnic heterogeneity, institutional instruments are extremely important.

The first major issue concerning ethnicity is the right to vote in local elections. In the case of Latvia this right is granted to citizens, who in 1998 encompassed only seventy-three percent of the population. Twenty-seven percent of the country's inhabitants are citizens of the Russian Federation. (The total Russian minority is more than thirty-two percent.) Foreigners and noncitizens have the opportunity to apply for naturalization, requiring residency in Latvia for five years from 5 May 1990 and testing for language proficiency in Latvian and basic knowledge of Latvian history, the constitution and the text of the national anthem. In Estonia only citizens have the right to vote and be elected, but citizens of foreign countries and stateless persons are entitled to vote if they have resided in the territory of the given local authority for at least five years.

The second issue is the existence of specific instruments that involve ethnic minorities in local government. In Latvia the local government council may set up a standing committee on the affairs of foreigners and noncitizens if at least one-fourth of the inhabitants registered in the administrative territory are of such status. In Hungary the proportion of national minorities is not as high. Thus, the establishment of new institutions was less complicated than in other countries in the region; a special minority local government system is in operation. Access to local bodies is possible with the assistance of less severe regulations, and minorities may establish their own governments at the settlement level. Positive discrimination for minority representation in municipal councils is a practice regulated by law in Slovenia as well.

5. Basic Organizational Models

The most important element of public administration reform is the creation of entities for local governance [Bennett 1998: 40]. This entails the reestablishment of basic legal and managerial units. In the situation of *tabula rasa*, the decision to choose among the basic models of such organization was relatively independent.

As table 1.4 shows, the choices made in each country were very different. Some accepted the principle that local government was linked more or less to settlement structure following geographical boundaries, as exemplified by the Czech Republic, Slovakia and Hungary. These systems are nonintegrated, referring to the fact that a relatively large number of municipalities exist without any administrative amalgamation. Integrated systems operate in Lithuania, Slovenia and Poland, meaning that the framework of local government units is adjusted to comprise larger proportions of the population irrespective of the geographical boundaries of settlements.

In West European countries [Council of Europe 1994] that have adopted integrated systems, less than five percent of the number of municipalities have less than one thousand inhabitants; thus, of the country group investigated here, Lithuania, Estonia, Slovenia and Poland fall into

this category due to their similarly low percentages. In nonintegrated systems more than twenty percent of municipalities have less than one thousand inhabitants, which is a characteristic of the Czech Republic, Slovakia, Hungary and Latvia.

It would be easy to categorize countries according to their actual territorial division; however, it is necessary to highlight their systems from a historical aspect. Table 1.4 shows the temporary status of structures at the end of the 1990s. The importance of this classification must not be exaggerated; these systems in transition are changing quite rapidly.

Table 1.4

Population and Number of Municipalities in Central European Countries

Country	Number of Municipalities	Mean Population of Municipalities	Percentage of Municipalities with with Less Than 1,000 Inhabitants	Percentage of Population Living in Municipalities with Less Than 1,000 Inhabitants
Estonia (1 Jan 1998)	254	5,713	9.4	1.2
Latvia (1 Jan 1998)	563	4,400	32.1	5.6
Lithuania (1 Jan 1996)	56	66,300	1.8	0
Poland (1 Jan 1999)	2,483	15,561	0	0
Czech Republic (1 Jan 1994)	6,230	1,659	79.8	16.7
Slovakia (1 Jan 1998)	2,875	1,874	68.4	16.2
Hungary (1 Jan 1999)	3,131	3,242	54.7	7.7
Slovenia (1 Dec 1998)	192	10,344	3.1	0.2

According to these data the largest change in mean population of municipalities was in Slovenia, varying from 5,539 to 32,263—that is, from a neutral regime to an absolutely integrated system.⁷ We are reluctant to typify Latvia, because the territorial reform process is just now in process; an amalgamation plan has been prepared and will be realized in the coming years.

This situation is very different in western democracies. Crucial changes determine their systems for decades in advance—reforms were introduced in 1974 in the United Kingdom, and in the

1970s in the Scandinavian countries. The gap between the two regions is not surprising, of course, because the Central European systems have not been stabilized yet. However, a real contradiction exists in the basic decisions and choices that determine the subsequent steps in the establishment of a particular system.

Does this situation mean that nothing is typical in the region concerning the administrative reform process, everything is fluid, there is no sense in what is happening at all? Of course, it does not. But one must not exaggerate actual differences; it is more relevant to classify the typical dilemmas of reform.

The specific alternatives discussed—which particular options are preferred or rejected—are more characteristic than the temporary solutions that have been implemented in a more or less consequential manner. The main dilemmas of the countries investigated here include:

- Dilemma A—nonintegration versus amalgamation at the basic level;
- Dilemma B—nonintegration versus second-tier integration and associations;
- Dilemma C—ascertaining which tiers should address various functions.

1. *Dilemma A*

Following the European North models (Scandinavia and Anglo-Saxon countries) is characteristic of reform in the Baltic states (Latvia, Lithuania and Estonia). However, such systems have not simply been copied; the local politics of systemic formulation has involved complicated strategies. One example of this group is Latvia, where the first projects to amalgamate small and medium-sized municipalities in 1992-93 were unsuccessful. Hence, the reform program for the near future establishes more incentives and a longer transitional period. Slovenia is also included in the group facing the dilemma of nonintegration or amalgamation. Its hesitation is demonstrated by relatively frequent alterations in the reform program. Poland is a slightly different case, as debates revolve around tiers rather than basic units.

2. *Dilemma B*

The European South model involves integration of small units by tiers of territorial administration without actual amalgamation; preference is for settlement-based municipal autonomy. Thus, debate revolves around the establishment of additional intergovernmental levels or—if they previously existed—the strengthening of the second or third tiers. The group suffering from dilemmas like these consists of the Czech Republic, Slovakia and Hungary.

In these nonintegrated systems the main goal throughout the decade has been territorial integration of numerous, small, autonomous units. Administrative technique was common in its aim, but it was different in its realization. In the Czech Republic and Slovakia district

administrative offices provided territorial integration of the system, while in Hungary a relatively weak county government was established in order to fulfill tasks and function for a large area. All of the countries in this group intend to develop tiers of territorial administration. Parliamentary approval of and the first steps towards integration at the middle level have been realized. These examples exhibit many technical aspects of the French and Latin systems, though the systemic structures as a whole are still in transition.

3. *Dilemma C*

The third “group” consists of only one country—Poland. Its population alone is more than that of all the other countries together. Here the problem of integration is concentrated mainly on the functional division of different tiers and intergovernmental relations—moderate integration at the basic level and a more coherent structure of the second and third tiers.

This method addresses fragmentation and combines different instruments of territorial administration. Here again, reform officially has been approved by parliament and is in progress. However, the process has been halted at various points throughout the decade.

The creation of regions is generally the intention of many of the countries discussed in this volume. Motivation for this is based on the model of regional structure proposed by the European Union. In the preaccession process applicant countries are required to adjust the frameworks of their systems, and one option is the creation of public governmental regions. In Poland, however, the intention to define tiers has greater managerial motivation.

In summary, what is the relationship between the basic units and the three alternatives mentioned above? One commonality is that systems have been constructed from the bottom up, meaning that the basic levels of local government were established first and alternative models were chosen later. Some key country-specific points have emerged that will affect further development, such as the demand for small unit autonomy in Hungary, the defense of neighborhoods in Lithuania and preservation of three levels of territorial administration in Poland.

Despite these differences the enthusiasm for strong and clearly defined basic units is common. This is supported by some important elements. First, there is no superior authority over municipalities; neither second-level local government nor administrative territorial districts have power over them. This is extremely pertinent when taking into consideration the history of these countries; during the communist period local autonomy was fully prohibited.

The second common feature is a result of the first: in the new era politicians and in many respects the public recognize that extreme nonintegration of local government does not guarantee effective decentralization. In each of the countries in this region different forms of integration have emerged. Furthermore, conceptions and implemented reforms have been administrative in nature;

the complex functional mechanisms of intergovernmental relations are not yet as well defined. Therefore, attention to the structural basics of reform was exaggerated, and not enough attention has been placed on questions of implementation. This was due in part to changes of governments. After general elections new parties and coalitions came into power with interests that conflicted with those of their predecessors; thus, reform programs from one term to the next were often incompatible.

All in all the level of autonomy in determining such choices was quite high. One of the most important characteristics of the process was the opportunity to throw off former national determinants. For example, Hungary established a system that had hardly any characteristics of the traditions exhibited either during or previous to the communist era. The Czech Republic, on the other hand, embraced the democratic traditions it displayed in this century before the communist regime. The Baltic states accepted the Scandinavian model more completely than ever before. This relatively high degree of freedom in choosing the appropriate program and implementing strategies to establish a new system was one of the most important advantages of the process of local development for the whole region.

5.1 Systemic Structures

The structure of intergovernmental systems is determined by not only the number of levels that exist but also the links and division of responsibilities among them. Earlier, dilemmas concerning the basic units of self-government were described. The next important question arising in the process of reform is the role of the second and/or third tier of territorial government.

The process of establishing intermediate levels has been most interesting. At first glance, the differences are most evident: which level is preferred—district, county or region?⁸ Are they elected bodies or administrative units without public representation? How many intermediate levels exist in practice? What is the role of reform in changing national structures? Following from this, even more important are the mechanisms in place that allow multitiered local government to operate.

In Poland debate revolved around maintaining a two-level government or rebuilding a three-level system—that is, to reestablish the middle level and decrease the number of regions. In the Czech Republic and Slovakia, debate concerning the establishment of regions and the method of doing so has been particularly heated. In Hungary, the position of counties always has been the focus of debate: although this level was weakened by the new reforms, strong territorial lobbies in the countryside still do not support its elimination.

Nowadays, future accession to the European Union places new pressures on these conflicts, even though there is no particular expectation for the unification of territorial public administration and this topic is not included in the *acquis communautaire*. Nevertheless the distribution of EU funding—especially structural funds that are traditionally important to underdeveloped areas—

are based on a territorial statistical calculation (the NUTS system). Mainly stemming from the strategies of poorer countries, such as Portugal, Spain and, to a lesser extent, Greece, political strategists have concluded that although it is not an obligation, territorial administrative and/or governing structures adjusted to the NUTS units of calculation are highly beneficial. Such harmonization, according to this opinion, will make it easier to receive grants from the EU in the future. This is why efforts to introduce regionalization are being pursued in some countries, such as Poland, the Czech Republic and Slovenia. It is also an issue of discussion in Hungary, but only in a nascent phase at the moment. Table 1.5 indicates the structural levels of all eight countries.

Table 1.5
Territorial Governmental and Administrative Units in Central Europe, 1999

Country	Municipalities	Districts		Counties/Regions	
		Governmental Units	Administrative Units with General Competence	Governmental Units	Administrative Units with General Competence
Estonia	254	—	—	— ^a	15 + 6 republican cities
Latvia	563	—	—	26	—
Lithuania	56	—	—	—	10
Poland	2,483	373 ^b	—	16	16
Czech Rep.	6,230	—	73	(13) ^c	—
Slovakia	2,875	—	79	—	8
Hungary	3,131	—	—	19 + the capital	19 + the capital
Slovenia	192	—	—	— ^d	58

- a. County governments existed from 1989 to 1993.
- b. Sixty-five large towns with district tasks are included.
- c. Reform to introduce regions has been adopted.
- d. Reform to introduce regions is under preparation.

What is the difference between governmental and administrative units? Formally governmental units are representative bodies elected by citizens in general elections. They have defined self-governing functions, independent budgets and relative autonomy in the way they fulfill their prescribed tasks. They also can decide to take on additional responsibilities. In contrast, administrative units operate as representatives of the state without direct representation and are regulated and supervised by central departments. Thus, they do not possess democratic autonomy in their decision making. They have general responsibilities—that is, they do not have a single area of competence (like fire defense, public health, et cetera) but many.

In contemporary states, both types of organizations can function simultaneously. For example, tasks may be fulfilled better by strictly administrative organizations if matters require more specialized professionals and cooperation among different fields of experts. Deconcentrated offices and arms-length agencies work in every country. But purely administrative organizations with general competencies are not working anywhere, so they may be viewed only as one characteristic of a particular system. Thus, the administrative influence on the realization of territorial functions is stronger.

Based upon these definitions, let us compare the existing tiers of government in these countries. In this analysis we will consider only governmental units; thus, the main question is whether or not one or more levels of elected government exist. From this aspect some common features emerge.

5.1.1 An Early Ethos of One-tier Systems

Up to 1999, one-tier systems were typical in this group of countries. As table 1.6 shows, Poland recently altered its system, but previously local government existed only at the basic level in six countries. Additionally, the second level is weak in Hungary, and most authority is delegated to municipalities. Thus, in the early period of local structural development, the basic levels were preferred in almost all of the countries. The beginning of 1999 seems to be the turning point; in addition to Poland two countries are preparing reform of tiers (the Czech Republic and Slovenia).

Disregarding these more contemporary changes, we will analyze the former situation. The initiation of institutional reform at the most basic level was quite extreme in some places; the governing structure in capital cities provides a good example. In Warsaw, a highly nonintegrated system was accepted and a specifically capital-level government did not operate at all; rather, districts had a wide range of competencies. In Prague small units also had crucial power. In Budapest, although a capital-level government existed, the twenty-two districts had strong veto rights and a wide range of their own competencies.

The second general trend was to introduce government administrative units with general competencies rather than middle tiers of self-government. In Poland and Slovakia such bureaus existed on two levels: districts and, in a more integrated format, regions. The question of representation at the middle level was resolved in various ways; in some countries associations of municipal governments were organized at the district or regional levels, providing the framework for representation of self-government interests and the ability to affect decisions of state administrative offices.

Another general principle is that at the middle level, attempts were made to split self-government and state administration by delegating very specific functions to each type of organization. In Hungary, the government at the county level initially had no public administrative functions. These powers were delegated to parallel territorial administrative offices, as shown in table 1.6.⁹

In sum the ethos of the municipal level is a general principle in Central European development. A particular radicalism existed in the establishment of new structures; all reforms involved local

autonomy at the basic level that was not limited by territorial government. Idealism is also a characteristic of this issue. Professional reform expectations were “innocent”; it was believed that if the local unit was strongly secure in the system, it would operate without serious difficulties. After the establishment of new mechanisms, the guarantee of autonomy proved to be more complicated than expected. Democratic control over the daily operations of new institutions was also very difficult.

It might be that this was the cause of and explanation for subsequent reluctance to accept second tiers. It was difficult to conceptualize a territorial level without superior rights and powers that could be checked effectively. This is why the contemporary intermediate mechanisms were initially neglected; intergovernmental relations concerning finances and responsibilities still remain quite underdeveloped after the first decade of transformation.

Another common conclusion is that the first period of reform—from about 1990 to 1998—has been completed. This was the era of strong and single basic tiers. The next stage will involve the development of intermediate integration at territorial levels, but it is difficult to predict the directions that each country will follow. Thus, we turn to an investigation of the content and direction of plans that have been approved as official programs and that are being implemented or will be in the near future.

5.1.2 *Reforms of Tiers*

What types of midlevel tiers are preferred? As mentioned before the two basic models are governmental and administrative. In some countries both types of organizations exist, so strict classification is impossible; however, based on the dominant character of institutions, the model chosen by each country is demonstrated in table 1.6.

Table 1.6
Midlevel Local Government Tiers in Central European Countries, 1999

Countries with Dominantly Governmental Midlevel Tiers	Direction of Change	Countries with Dominantly Administrative Midlevel Tiers
Latvia	(→) ?	
		Lithuania
		Estonia
Poland ← (1 Jan 1999)		
	←	Czech Republic
	(←) ?	Slovakia
Hungary		
	←	Slovenia

The following comments should be taken into consideration when analyzing this information:

- in Hungary at the county level both self-government and separate administrative offices exist;
- after the recent reform in Poland, regional governments and offices of regional administration are in operation [Regulski 1999, 24–29];
- in the Czech Republic, apart from district offices of state administrative organizations, district assemblies exist that are delegated responsibilities by municipalities, although they are not self-governments;
- in Latvia regional governments are delegated bodies comprised of the chairs of municipal bodies;
- in Lithuania neighborhoods are governed by self-governments.

What is typical of territorial levels in these countries? Very little, at this point. The current direction of reform can be classified rather than strictly defined solutions. From this aspect two subgroups of countries emerge.

1. *Subgroup A*

Here, a single-tier local government system is still emphasized; the Baltic states fall into this category. Latvia is currently making efforts to establish a middle tier, but in 1996 such efforts were unsuccessful. Furthermore, the current regional governments do not have electoral legitimacy and thus their position has not yet stabilized.

2. *Subgroup B*

The “southern” countries fall into a second category. The direction of change from the administrative-dominant model to the territorial government-oriented model is clear. This does not mean transferring emphasis from the municipal level to the second (or third) tier; rather their autonomy and authority have been preserved. Some authors believe that this attitude and the subsequent restriction of the regional level actually will hinder further decentralization [Illner 1999, 24–29].

Regardless of this distinction, some form of integration is intended in every country. One way is amalgamation, supplemented by guarantees and techniques that will defend the democratic influence of the public; thus, it is important to form the necessary channels for the representation of interests. The second way is to establish self-governing intermediate territorial government in order to control decisions in a more democratic fashion than is possible solely through municipalities. Regardless of the model selected, the division of tasks between governmental and administrative institutions must be rigidly defined.

In summary, the main typical feature of structural reforms has been moderate incentive for integration in the operation of local governments. This process will be more decisive in the next

stage of reform. The effect of European integration will factor into this process. As previously mentioned, there is no expectation to adjust territorial division in accordance with any prescribed structure. The system of statistical calculation is not necessarily adjusted according to territorial public administration, and typically this procedure is not implemented in member states. Nevertheless, this issue has been debated and played a role in the recent Polish reform [Chancellery 1998] and in the preparation of systemic review in the Czech Republic. In some countries planning regions have been established. In Latvia and Hungary such structures involve multiple territorial government units that work as entities of regional development and planning. Their size has been adjusted to the NUTS system of the EU. In Hungary regional development councils and county development councils represent different interests, including those of county governments. They are quasi-governmental statutory bodies representing the local and national governments and chambers, various public administrative bodies and municipal associations.

In the development of the intermediate level of local government, some alternative political points of view also can play a significant role. For example, in Slovakia the geographic territories of various national groups were taken into consideration in the revision of territorial division.

The structure and internal organization of local governments have more or less stabilized. Another group of elements is less demonstrative and more complicated to “establish” with one or more decisions; they must emerge through an evolving social process. These include a number of social conditions, economic circumstances, property systems, budgetary operations, et cetera.

Two groups of problems will be discussed here: local functions and finance. Renewal of both is a basic condition to the real operation of local governments in the region.

5.2 Distribution of Functions

Functional issues can be analyzed from at least two perspectives. One is based on legal regulations including the delegation of powers to different territorial organizations. The other is the delivery of local public services.

Thus far the main principle concerning the delegation of local functions is that in this region, the basic level of government systems is preferred as the supplier of services. The upper local government tier, if it exists at all, serves as a supplementary provider. The division of functions was established from the very beginning, meaning that there is no duplication between levels; rather the distribution of work is adjusted to the rationality of service provision. This basic conception follows the West European tradition.

However, differences emerge concerning the role of territorial administrative units with general competencies. As it was shown in table 1.6 in seven countries (all except Latvia) administrative offices with general responsibility are working or were working in the former period of the

transition. The more powers delegated to state administrative offices, the fewer functions remain in the hands of local governments.

Two groupings can be identified. In the first administrative offices have exclusively state administrative functions, like supervisory powers, monitoring legality, representation of central government and implementation of its initiatives, coordination of special purpose centrally subordinated offices, et cetera. Representative of this model are Estonia, Hungary and Slovenia.

In the other group administrative offices have local or regional functions, following the western tradition. For example, the maintenance and development of secondary schools, responsibilities for health and child care, et cetera are delegated to such administrative offices. This is or was the situation in the Czech Republic, Lithuania and Slovakia.

It is quite unique that district/regional administrative offices have territorial government functions as well [Horváth 1996, 167–168]. Czech districts are responsible for secondary, technical and special schools; public health; regional planning; and civil defense. They also oversee other institutions that basically belong to the competencies of municipalities, such as primary schools, kindergartens and welfare homes; hospitals, theaters, museums and libraries; roads, public transport and fire brigades; et cetera. These supplementary functions are delegated to districts if a municipality cannot fulfill them.

By law Lithuanian counties are in charge of health care, child and elderly care, civil defense, preservation of cultural heritage, public transport and maintenance of vocational schools. Apart from these typically local or regional government functions they have public administrative tasks, like directing educational inspectorates and the administration of agriculture. Individual local governments decide this legal division of functions.

Regional and district offices in Slovakia manage most primary schools, hospitals and primary health care institutions; maintain kindergartens, welfare homes, theaters, museums and libraries; address regional planning, civil defense and consumer protection; et cetera. They also have locally and regionally delegated functions that municipalities cannot or do not want to fulfill.

What is peculiar about these types of offices? First, because of the scope of their functions they should also engage in policy making, yet they do not have an elected deliberative body to make—or legitimize—such decisions. Second, they have their own budgets, including revenue and expenditure structures determined by financial policy decisions. Third, apart from the functions listed above, these offices also have strictly administrative tasks.

In all cases a common feature is that at the district or regional level, compulsory associations of local governments form parallel territorial bodies. The logic for choosing this type of system at the intermediate level was the protection of the autonomy of the basic level. Such logic was adopted in countries following more traditional models, like Hungary. Here county government

has been preserved, but state administrative functions were delegated to separate county administrative offices.

Again the new evolving structures can be typified only by the orientation of reforms rather than defining categories among the members of this country group. As previously mentioned Poland recently abolished its administrative offices, replacing them with elected self-governments. In the Czech Republic a similar reform has been adopted and will be implemented from the beginning of 2000. Regulations in these systems are moving towards intergovernmental relations rather than determining hierarchies in an absolutely formal way. This can be demonstrated through changes in public service managing systems and financial mechanisms.

5.3 Local Finance

The local finance reform process involves more than the formal establishment of new institutions. It is also a part of the evolving development of local service provision that responds to economic and social circumstances. However, apart from the characteristics of regulation financial policies can be compared. Directions and differences can be concluded from both.

Table 1.7

Local Government Expenditures as Percentage of GDP in Central Europe

Country	Early 1990s ^a	1994	1995	1996	1997	1998
Estonia	7.1	11.9	11.7	11.3	10.5	11.9
Latvia	12.5	10.3	10.8	11.7	9.4	9.4
Lithuania	13.1	11.2	11.1	9.0	7.6	—
Poland	5.9 ^b	7.1	6.5	8.2	8.6	8.6
Czech Rep. ^c	9.3	8.0	7.9	7.1	6.8	—
Slovakia ^d	4.8	4.3	3.7	4.0	4.1	3.8
Hungary	17.4 ^b	16.8	14.1	13.3	12.0	13.0
Slovenia	4.4	5.4	4.6	4.9	4.8	4.9

- a. SOURCES: Poland—R. M. Bird, R. D. Ebel and C. I. Wallich (eds.), *Decentralisation of the Socialist State: Intergovernmental Finance in Transition Economies* (Washington: The World Bank, 1995), 3; Hungary—Ministry of Finance; all others—“Proposals for the implementation of the programme of activities for 1996,” *CDLR*95, no. 27 (1996), cited by Janis Bunkss, “Trends of development of local democracy in countries of Central and Eastern Europe,” conference paper delivered in Jurmala, Latvia, 1997, 4.
- b. 1993 data.
- c. District offices included.
- d. Regional and district offices not included.

Relatively low levels of local expenditure are exhibited in Slovakia and Slovenia, and a decreasing proportion of local expenditure in Latvia, Lithuania, the Czech Republic and Hungary. Only the Polish case seems to demonstrate the opposite.

In general, the tendency of western countries is reflected by these trends, but this does not mean simply copying the models of developed countries. In the process of transition, policies for economic stabilization could not be avoided. In this period local expenditures were restricted along with other government-funded areas, such as education, health care and social care. Such restrictions were concurrent with decreasing GDP and GNP (see tables 1.1 and 1.2).

Overspending also is limited due to aspirations to join the EU and, in the more distant future, the European Monetary Union. According to Maastricht criteria candidate countries must not run excessive deficits. The acceptable threshold defined by the European Union Treaty is a general government deficit of no more than three percent and general government debt of no more than sixty percent of GDP. Thus, the state is responsible for limiting the financial spending of local governments [CDLR 1997, 14].

The trend described above is determined by similar and common internal and external circumstances in the region. A general aim of national governments was to limit the redistribution of funding to local governments.

What happened to general government expenditures? Are there correlations between local and state expenditures in particular areas? Table 1.8 provides data on this issue.

Table 1.8

Local Government Expenditures as Percentage of General Government Expenditures in Central Europe

Country	1994	1995	1996	1997	1998
Estonia	33.1	31.4	29.8	28.1	30.6
Latvia	26.0	26.2	26.2	24.2	25.2
Lithuania	32.7	31.8	28.7	22.9	—
Poland	19.0	19.1	24.6	26.8	34.0
Czech Rep.	20.6	20.8	18.8	16.6	—
Slovakia ^a	11.8	11.0	12.0	12.2	13.9
Hungary	26.7	26.6	27.2	25.5	24.
Slovenia	11.5	10.1	10.8	10.5	9.2

a. Not including social insurance fund expenditures.

It is difficult to draw comparisons between local and general government expenditures, as information is not available for every country concerning the content of these figures. For instance, social insurance funding and district office expenditures are included in some cases and not in others. The low level of Slovakia shown in the table is explained by such missing data.

However, generally speaking, the level of local expenditure has more or less stabilized in the majority of countries. Poland and Lithuania differ from the average most significantly; in the case of the former the proportion is still growing significantly, in the latter it is still decreasing.

Concerning systems of financial regulation, significant changes have been implemented. As previously mentioned, financial reform was implemented before structural change only in Hungary. However, sooner or later such regulations followed major reform in all these countries. At least two crucial elements should be emphasized. The first is the increasing role of taxes in the structure of revenues. Thus, the production of income has a greater role in determining the capabilities of different local governments. Levying taxes is an instrument to promote local and regional economic development. From this point of view local policies can contribute to stabilization policy. However there is also the danger that levying taxes on entrepreneurial activities will contradict guarantees for common and equal market conditions required by the European Union. Furthermore, greater differences are emerging among municipalities with different capacities. The calculation and division of these resources, of course, are not equal among municipalities. With respect to this phenomenon, regulations on equalization also have been introduced.

The second phenomenon is the changing character of state involvement. Grant systems have been introduced, replacing subsidies. Normative regulations are generally decided by parliaments restricting individual distributive decisions as far as possible. Local governments must apply for support in accordance with prescribed conditions, and decisions are made democratically. Apart from normative general grants, special grants have been introduced for particular purposes.

Table 1.9
Local Government Revenues in Central Europe [%]

Country	Independent and Shared Revenues		State Grants	
	1997	1998	1997	1998
Estonia	60.7	54.2	24.5	22.5
Latvia	54.4	54.1	32.4	32.7
Lithuania	66.5	73.6	16.3	—
Poland	59.5	58.2	38.3	39.7
Czech Republic ^a	52.0	51.5	22.6 ^b	22.1 ^b
Slovakia	36.7	39.5	—	—
Hungary	35.5	37.2	29.2	31.7
Slovenia	42.6	41.2	21.7	21.5

- a. Transfers not included.
- b. Grants to district offices included.

In the majority of cases, with the exception of Hungary, tax revenues clearly are preferred and have increasing significance. However, the equalization function of state grants cannot be neglected due to huge differences among municipalities.

Of course, increasing levels of state grants lead to higher state budgets. From this point of view the tendency and intention of financial and fiscal policy to limit state involvement in local finance has been accepted. However, differences in local conditions are also increasing, which has negative consequences for local government development during the transition period.

6. Concluding Remarks

What is most characteristic of the local reforms of these countries? Mainly that the first stage of development has been completed. New local democratic systems have been institutionalized, teamed by local economic reform. All these changes took place under conditions of economic crisis and state transformation, both of which seem to be on the upturn in all of these countries. Additionally, numerous necessary elements of government reform that were previously neglected have now been introduced.

However, these systems are in a state of continuous change, which is especially reflected by efforts to reform territorial government and regulate local public service delivery. Thus, fixed systematic differences cannot yet be defined. Other countries of the former soviet bloc from outside the region discussed here may join this group in the near future. In sum, the current phase of development and the less common characteristics of their systems may influence others in transition.

Of course, this is true only concerning the institutional aspects of local development. From a social point of view many variables become apparent. The social consequences of change are deeply rooted in specific circumstances; national conflicts and regional inequalities have great influence on the systems and mechanisms of local governments.

This collection of papers neglects social determinants and mainly focus on administrative issues. The process is analyzed on the basis of system building and instruments selected in constructing models and frameworks of institutions for social action at the local and regional level.

What is typical in this process? What are the main common features? And what differences exist among members of the group? The stabilized common elements of reform are:

- emphasis on basic levels (municipalities or integrated units);
- democratic internal design;

- emerging alternative forms of services delivery;
- financial and fiscal reform at territorial levels to various degrees.

These countries reached such goals by the late 1990s; the direction and speed of their systemic transitions are common features. The clear differences are in the alternatives chosen at the basic levels. The European North model avoids amalgamation. The other classical situation is based on traditional South European models, guaranteeing autonomy of the basic level yet ensuring government and state control at regional levels. Poland demonstrates a third model, where moderate integration and the creation of middle level government occurred simultaneously

In summary, the characteristic differences are mainly in structure and less in the models chosen. They are quite fluid at this stage of development. The transition is yet in progress, but the fields of alternatives have been drawn up quite clearly. The next step in selecting among these alternatives will have great impact on the final frameworks of these local government systems.

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Notes

- ¹ The author is grateful for Gábor Péteri's comments and Jerzy Regulski's critique.
- ² See Grochowski 1997; Gazaryan 1995; Vidláková 1997.
- ³ The "right to buy."
- ⁴ In Hungary the proportion of state and local government-owned housing was thirteen percent in 1994 [Hegedüs, Mayo, Tosics 1996, 15]. In some West European countries, such as Spain, Portugal, Italy and Belgium, this proportion varied from one to six percent at the beginning of the 1990s. In Germany, France and Denmark, however, government-owned housing was significantly higher, at seventeen to twenty-one percent [Horváth 1997, 170].
- ⁵ See the model of "Konzern Stadt" [Kuban 1996].
- ⁶ Data of country reports can be analyzed with the help of Ágh [1998, 126–139; see appendix, "The most important political parties of East Central Europe and the Balkans"].
- ⁷ For instance, in Slovenia the changes in the number of basic units of local government follow: 1991, approved by parliament but rejected by referendum—360 communes; 1993—62; 1994—147; 1998—192.
- ⁸ The definition of district, county and region varies country by country. In this study, districts are the smallest nonmunicipal territorial units, counties are typically larger, and regions are the largest. Naturally, this distinction is quite relative, and it is not typical for all types to be adopted in any one country.
- ⁹ However, this explanation of the whole process is not absolutely correct. In Estonia, county governments existed for four years during the transition period but later were abolished and transformed into county-level state administrative units. Here the midlevel government trend was reversed.