



**Political  
Science  
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## **COLLECTION OF THESIS**

**Zoltán Török**

Ph.D. dissertation titled

**Understanding Large Scale Policy Change  
National Policy Reform Under External  
Constraints**

**Supervisors**

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**Department of Public Finance and Public  
Policies**

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# 1. The justification of the topic and the antecedent of the dissertation

As a macroeconomic analyst I have been deeply involved in the research of the economic developments over the past two decades. My research area has been primarily the Hungarian economy, however I studied in depth the regional peers, the Euro-Area, and other global developed and emerging markets. I have witnessed ample evidence for that the content and the quality of national level policy making has essential influence on the overall economic performance of the individual countries. The qualitative characteristics of economic policies affecting the macro-level and the change of these policies over time (i.e. fiscal policy in general, and various policy areas, such as tax policy, education policy, health care policy, industrial policy in particular) have been always in the forefront of my professional attention.

The changes in the macroeconomic environment are essentially reflecting the changes in the quality of life of the citizens. The 2008-2009 financial crisis and the

subsequent European sovereign-debt crisis (2011-2012) brought about distinctive break vis-à-vis the previously accepted modus operandi in the realm of the economy and financial markets. The crises also generated meaningful repercussions in the field of (both national and international) politics and resulted in new mechanisms in the governance within the European Union (Alesina, 2012; Blöchliger et al 2012, De Grauwe, 2013, Sutherland et al 2012; Ongaro 2014). Several countries – including a number of EU member states - got into severe financial distress as a consequence of the financial and economic crisis due to their previously accumulated imbalances provoked by policy malfunctioning. The 2008-2009 financial crisis was followed by the sovereign debt crisis in the European Union that had the potential to threaten the proper functioning of some basic pillars of the European integration in 2011-2012. The previously designed governance structures proved to be inefficient to prevent and manage the crisis. The sovereign debt crisis was manifest in a steep increase of public budget deficit and public debt in several member states. This provoked the need to cut budget deficit and reduce public debt.

Hungary was clearly one of the most severely affected country of the financial crisis and its aftermaths in the European Union. Because of my job as a macroeconomic analyst, I thoroughly studied the run-up period ahead of the financial crisis and the sudden hit of the crisis starting first with difficulties of the public debt-refinancing. Later on I analysed the direct and indirect impacts of the crisis on the Hungarian economy and the crisis management from the side of both public and private sector actors. Having professional contact to some of the most relevant figures in public policy making, I had the opportunity to gain an insight. Notwithstanding, my curiosity was not fully satisfied. There were several areas of interest, where a more in-depth analysis were needed in order to get a better understanding, such as: What is the interplay between national policy making and the general global trends in the realm of public policy design? How do external constraints shape policy outcomes under circumstances of conditionality? How did the country-level decisions over policy questions get influenced by the fiscal consolidation and what was the influence of the EU (and IMF) on the domestic fiscal consolidation? How did

the fiscal measures affect public sector reforms and administrative reforms?

In September 2015, an international research project was launched to investigate the politics of fiscal consolidation – the domestic government’s political decision-making about consolidation, and the influence of the EU (and the IMF) on that. The research project was interested in how the fiscal consolidation measures affected public sector reforms – in social security, health, education, etc. – and reforms within public administration itself. The ultimate ambition of the research project was to analyse how the EU (together with IMF) affected public sector reforms in countries under the conditions of fiscal crisis and consolidation. The project was led by Edoardo Ongaro and Walter Kickert. As my research interest was largely similar, I felt honoured to have the opportunity to participate in the research team’s work.

My contribution to the first stream was a publication titled: ‘Unintended outcomes effects of the European Union and the International Monetary Fund on Hungary’s public sector and administrative reforms’. The

article was published by Public Policy and Administration (SAGE Publications) in April 2019.

My contribution to the second stream is an article titled: ‘The politics of fiscal consolidation and reform under external constraints in the European periphery: Comparative study of Hungary and Latvia’ published by the journal of Public Management Review (RPXM). The article was written together with Aleksanders Cepilovs.

Due to my involvement in the international research project, I got increasingly interested in the topic of policy change under external constraints. I continued to further investigate the combination of factors facilitating large scale policy shifts with the broad aim to test and potentially refine existing theories of policy change, to compare their explanatory power. Therefore I commenced another research. I studied a specific policy area in Hungary with the target to uncover the various stages of the change process; the rationale behind the choices of national elite decision makers; the influence of external agents; and the interplay between the considerations of fiscal consolidation need and policy reform.



My selected case was the change of the Hungarian tax policy in the 2009-2018 period. A lengthy time-span of relative stability regarding the overall revenue structure of the tax system was followed by large-scale changes in Hungarian tax system starting from 2009 in Hungary. This was signalled by a dramatic shift of the tax burden from labour and capital income to consumption. The 2008-2010 time period was characterized by an IMF-bail-out program with its conditionality criteria, and a deep economic crisis. Hungary was also the subject of the European Commission's Excessive Deficit Procedure in the 2004-2013 period. I was interested in that under the given circumstances what factors could explain the large-scale change of the Hungarian tax policy and how do answers relate to policy change theories' findings? I found that academic discourse had only insufficiently covered the questions raised. Therefore I prepared a conference paper to the 2nd UECEP conference and wrote the article which is titled 'Necessary Factors Facilitating Large Scale Policy Change Hungarian Tax Reform 2009-2018'. The article focuses on the combination of factors facilitating large-

scale policy change in light of the stipulations of the various streams of policy change literature.

The selected case of the dissertation is Hungary – all three articles deal with the Hungarian developments. In the same time, other EU and OECD countries are also looked at for comparisons. The EU, the IMF and the OECD are considered by the dissertation as external agents. The case selection is partly driven by my professional experiences as a macroeconomic analyst described above: I considered my familiarity of the case as an advantage. The other reason for the case selection is that Hungary was a definitive basket case for the research interests: in the critical years the country witnessed external influence coming from the EU in the form of the Excessive Deficit Procedure; participated an IMF-bail-out; experienced land-sliding political changes, deep economic crisis; and went through a series of fiscal consolidation and public sector reform attempts. As case studies typically strive for explaining the features of a broader population, they aim to be something larger than the case itself (Gerring, 2004; Gerring and Seawright,

2008). The Hungarian case is considered here an apt choice for the above considerations to elucidate large scale policy change and national policy reform under external constraints in general.

The time frame of all the three article is the financial crisis and the crisis management years, strictly speaking the 2008-2012 period plus the pre-crisis and post-crisis years. The time-span is not necessarily always precisely bounded though. The European Commission's Excessive Deficit Procedure (in case of Hungary the 2004-2013 period) is considered by the dissertation as an explicit source of policy influence coming from an external agent. Therefore, this time period needed to be fully engulfed by the research. Moreover, for facilitating comparative exercises, it is meaningful to look at periods without the attribute of the explicit external influence such as the pre-2004 and post-2013 periods. Accordingly, the dissertation's broad time frame is the past two decades (2000-2019).

The following dissertation is a portfolio dissertation: the above mentioned three scholarly articles

(all published in 2019) are edited here, and they are amended with an introduction in the beginning and a conclusion at the end. The central theme of each of the articles is policy change under the circumstances of external constraints with the focus on the influence of external agents on national policy making. A special focus was put on the domestic fiscal consolidation, the fiscal measures affecting public sector reforms and the influence of external agents on the decisions on particular policy outcomes.

## 2. Methods

The dissertation has the underlying ambition to uncover the politics of fiscal consolidation under the circumstances of economic crisis, to study the external inducement in making policy reform at the national level in the wider area of the public sector and in the narrower case of tax policy in Hungary. The dissertation looks for causal mechanisms in qualitative in-depth single case

studies, it has theoretical ambitions that reach beyond the case; it is concerned primarily with causal inference, rather than with inferences that are descriptive or predictive in nature. The research includes both systematic mechanisms and case-specific mechanisms in the explanation and makes within-case inferences about how outcomes come about.

Process tracing is treated as one method in the case study method literature, usually a component of case study research. It relies heavily on contextual evidence (Gerring 2007). Process tracing method is assumedly makes possible the study of causal mechanisms (George and Bennett, 2005; Beach and Pedersen 2013). Therefore it is considered to be an adequate case study tool in deciphering the causal mechanisms of the given sequence of policy changes. Accordingly, the articles apply the process-tracing method for within-case analysis in order to establish causal relations (Bennett and George, 2005; Beach and Pedersen, 2013). The first and the third articles (Chapter 2. and Chapter 4.) apply within-case analysis, while the second article (in Chapter 3.) utilizes the most

similar system design and adopts a two-country comparative case study methodology. They are comprised of exploratory and explanatory research. The dependent variable is ultimately the policy outcome of the policy change procedure. There are a series of independent variables, such as the influence of the EU and the IMF; economic crisis; reform ownership of elite decision makers etc. (see more detailed description in the relevant chapters).

In order to establish causal relations (Bennett 2004; George and Bennett 2005) four data sources were consulted during the empirical research. First, extensive desk research was conducted, analysing publicly available official reports issued by the national institutions (e.g. National Reform Programs and Convergence Program); Country-Specific Recommendations issued by the European Commission (EC); EC staff working documents; World Bank, OECD and IMF reports. Second, semi-structured interviews were conducted with representatives of ministries and public agencies, former and current members of parliament etc. Third, in order to

incorporate the broader public debate into the picture, relevant media sources were consulted. Fourth, statistical and financial market data were collected in order to fully track the developments and the policy outcomes of public sector reform and fiscal consolidation. The statistics on the macro developments were sourced from Eurostat, and where applicable from national statistical offices database. Financial market data was sourced from Bloomberg, while the tax statistics was sourced from OECD and Worldbank database.

Altogether, 10 persons were interviewed in the 2015–2017 period in Hungary (by the author of the dissertation) and 9 person in the 2013-2016 period in Latvia (by the co-author of the article ‘The politics of fiscal consolidation and reform under external constraints in the European periphery: Comparative study of Hungary and Latvia’. The interviewees were selected with the intention to get a broad account of the case both horizontally (public sector representatives, central bank and fiscal council representatives, EC and IMF representatives) and vertically (junior employees,

executives, high level decision makers, experts and political appointees). A peculiarity of the interviews was that in most cases the interviewed persons changed their positions throughout the time period under investigation, and therefore they could report relevant information from multiple viewpoints.

### 3. The findings of the dissertation

#### **3.1. The findings of the first article**

The analysis in the article ‘Unintended outcomes effects of the European Union and the International Monetary Fund on Hungary's public sector and administrative reforms’ supports the thesis that the success of a policy transfer is a function of the actual qualitative features of the policy transfer process and echoes mainstream texts on public management reform, especially those that postulate that the nature of the executive government affects perceptions about the desirability and the feasibility of policy reform; the actual



reform content; the implementation process; and the eventual extent of the achieved reform. The main finding of this study is that the Hungarian case gives evidence of how EU-influenced public sector reforms could eventually produce outcomes with consequences that are the exact opposite of what was intended. The article argues that the deviation from the public reforms prescribed by EU policy models and values in the post-2010 period is well explained by the particular socio-economic, political, and administrative factors and the form of the political executive. Therefore it is worthwhile to amend and refine policy transfer theories with the findings of the study, i.e. public sector reform content is aligned to the dominant elite decision makers' agenda.

### **3.2.The findings of the second article**

The article titled 'The politics of fiscal consolidation and reform under external constraints in the European periphery: Comparative study of Hungary and Latvia' argues that socio-economic structures and key political decision makers' reform ownership is crucial in the explanation of the different trajectories Hungary and

Latvia displayed during their fiscal consolidation and reform under external constraints.

### **3.3.The findings of the third article**

The finding of the article titled ‘Factors Facilitating Large Scale Policy Change - Hungarian Tax Reform 2009-2018’ is that the coexistence of all the various identified independent factors (i.e. economic crisis, strong external influence and reform ownership of the domestic elite decision makers) facilitated major policy change or policy reform - that goes beyond day-to-day policy management and involves structural changes. It is that the theories of path dependency, punctuated equilibrium, policy learning and advocacy coalition framework have already developed individually the elements of the big puzzle of policy change. The paper proposes to bring on a common platform of the existing streams of thoughts to develop the framework for a policy reform theory.

## 4. Main references

The dissertation refers mostly to the various streams of the existing scholarly theories on policy change, such as (1) multiple streams; (2) path dependency; (3) punctuated equilibrium; (4) policy learning – policy diffusion; and (5) the interest group activity centred ‘Advocacy Coalition Framework’. While these approaches offer fairly uneven categories, regarding their scholarly ambitions and their actual scopes, each of them has the underlying goal to comprehend the very existence of policy change and to give plausible explanations to the question what factors drive policy change. Therefore the above literature constitutes the theoretical framework of the dissertation.

As a major step in understanding policy formation, Kingdon looked at the interplay of individual agents, ideas, institutions and external factors (i.e. multiple streams). Policy formation is seen by Kingdon, as the joint combination of the streams of problems, policies and

politics. The particular circumstances where they congregate and result in policy change decisions is labelled by Kingdon as the policy window. Kingdon argues for continual change and adaptation of public policies as opposed to the stability of decision-making in policy communities.

The theory of path dependency claims that institutions are sticky, decisions made in the past encourage policy continuity and actors protect existing models, therefore public policies and formal institutions are difficult to change (Greener 2002; Wilsford, 1994; Pierson, 2000; Mahoney, 2000). Still, under certain conditions – that is called conjuncture, critical juncture or more commonly, the window of opportunity - a big change that departs from the historical path can be possible (Wilsford 1994; Capoccia and Kelemen, 2007). The window of opportunity - in the form of an economic crisis - delegitimizes previous arrangements and policies (Kickert and Randma-Liiv, 2017), therefore it is considered by the literature as an independent variable facilitating policy change. When policy change comes,

than the historical context – i.e. welfare state, civil society organisations, civil service regulations, unionization - also considered to be factors shaping the process and content of policy change (Christensen and Laegreid, 2017; Randma-Liiv and Kickert, 2018).

In a typical policy sector, there are long periods of stability followed by major (fast - and sometimes dramatic) policy changes. Therefore scholarly attention need to be focused on both change and stability. Punctuated equilibrium theory looks at the pattern of cyclical changes of policies when long periods of stability are followed by major policy changes. According to the theory, once an idea gets attention, it will expand rapidly and become unstoppable (Baumgartner and Jones, 1991; Baumgartner and Jones, 1993). Punctuated equilibrium is the process of interaction of beliefs and values concerning particular policy (termed policy images) with the existing set of political institutions or venues of policy action (Christensen, Aaron and Clark 2003, Christensen et al. 2006). According to the theory, policy-makers'

perceptions and the institutional framework determine the way policy problems are defined.

Policy learning deals with the question how ideas can be transmitted from one place to another (Rose, 1991; Dolowitz and Marsh, 1994; Shipan and Volden 2008). Policy transfer refers to the process whereby actors borrow policies, administrative arrangements, and institutions developed in one setting to make them work within another setting (Dolowitz and Marsh, 1996). Policy transfer occurs on a continuum between ‘purely voluntary’ policy transfer and ‘purely coercive’ policy transfer (Bennett and Howlett, 1992; Hecló, 1974; Rose, 1991). Coercive policy transfer – also termed as facilitated unilateralism or hierarchical policy transfer - occurs via the exercise of transnational or supranational authority; when a state is obliged to adopt policy as a condition of financial assistance (Bulmer and Padgett 2014).

The quality of the coercive policy transfer and its eventual outcome depends on variables such as the degree of authority accrued by supranational institutions and the density of rules and the availability of sanctions on the one

hand, and on the reform ownership of elite decision makers on the other hand. Reform ownership in turn rests upon ‘advocacy coalitions’. The change of the systemic governing coalition and the surrounding political subsystems (i.e. the form of political executive) with new policy concepts, is another independent variable of policy change. Top-down reforms driven by elite decision making – influenced by ideas and pressures from elsewhere – constitute the core of the reform process. Accordingly, public sector reform is more likely to happen if one political group (or advocacy coalition) becomes a dominant player (Alesina, 2006).

Policy change can be understood through the examination of political subsystems (advocacy coalitions) those seek to influence governmental decisions. The advocacy coalition theory recognizes that there are various competing sets of core ideas about causation and value in public policy. Coalitions form around these core idea sets because certain interests are linked to them. The members of advocacy coalitions are coming from a variety of positions (elected and agency officials, interest group

leaders, researchers etc.) and they shape the particular belief system - a set of basic values, causal assumptions and problem perceptions (Sabatier, 1988; Sabatier and Jenkins-Smith, 1991). Policy options are therefore the function of the position of the particular advocacy coalition vis-à-vis the elite political decision makers: shifts in the government have an impact on the advocacy coalition. The role of beliefs in shaping policy ideas is a key concept for both the advocacy coalition framework and the punctuated equilibrium theory - both takes into account the theoretical relevance of discursive factors in policy change.

## 5. List of the author's publications in the topic

Török, Z. (2019): Unintended outcomes effects of the European Union and the International Monetary Fund on Hungary's public sector and administrative reforms,



Public Policy and Administration, April 2019, SAGE Publications, DOI: 10.1177/0952076718789731,

<https://journals.sagepub.com/doi/10.1177/0952076718789731>

Török, Z. (2019): “Necessary Factors Facilitating Large Scale Policy Change -Hungarian Tax Reform 2009-2018”, Political Science Online, 6th Issue 2019/2

[http://www.uni-corvinus.hu/fileadmin/user\\_upload/hu/tanszekek/tarsadalomtudomanyi/politikatudomany/files/polscionline/2019\\_2/Zoltan\\_Torok\\_Necessary\\_Factors\\_Facilitating\\_Large\\_Scale\\_Policy\\_Change\\_polsci-online-2019\\_2.pdf](http://www.uni-corvinus.hu/fileadmin/user_upload/hu/tanszekek/tarsadalomtudomanyi/politikatudomany/files/polscionline/2019_2/Zoltan_Torok_Necessary_Factors_Facilitating_Large_Scale_Policy_Change_polsci-online-2019_2.pdf)

Cepilovs, A., Török, Z. (2019) The politics of fiscal consolidation and reform under external constraints in the European periphery: comparative study of Hungary and Latvia, Public Management Review, Vol. 21, 2019, Issue 9. Pages 1287-1306,

<https://www.tandfonline.com/doi/abs/10.1080/14719037.2019.1618384>