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**Institutional determinants of New Public Management**

Ph.D. dissertation

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Budapest, 2012

**Department of Comparative Economics**

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## 1. Objectives and relevance of the dissertation

At the dawn of the 21st century the Hungarian public is disappointed and pessimistic about its future, despite the fact that the country as a member of the European Union and NATO has unquestionably become part of the Euro-Atlantic region.<sup>1</sup> The operational role of the state that Hungarians consider so vital in shaping their lives is perceived as unsuccessful<sup>2</sup>, because in their opinion them, it does not contribute sufficiently to their welfare. Not only the mood of the population, but also international surveys indicate that in Hungary public administration and public services work with low efficiency, with questionable productivity and inequitably for the large segments of society. (Worldbank [2009]); (Tóth [2009]) Based on these perceptions it is not accidental that in the more than twenty years that has passed since the political changes the comprehensive reform of the public sector had received a high priority during all governmental terms and probably this will be the case in the future as well.<sup>3</sup>

Public sector reforms root even further back in time in the developed Western democracies than in Hungary, as it has been continuously on the agenda for the past 30 years. The utilization of the experiences accumulated in old European Union member states and in Anglo-Saxon countries is an obvious idea when considering the modernizing efforts of the Hungarian State. Reforms concerning the public sector that were realized in the West not only mean structural, system-wide changes, but also the same emphasis was put on the transformation of the management and managing principles of the public sphere. New Public Management (NPM) has played a decisive role in that after the millennium we can look at the performance of the Anglo-Saxon public sector as a leading example.<sup>4</sup> The NPM movement has had a radical effect on the productivity and efficiency of the public sector in the United Kingdom, in New Zealand, in the United States and in Australia. As a result of the successes the NPM is almost a mandatory element of the governmental reform efforts, so it is not accidental that the adaptation of the NPM techniques and the learning process that go with them is financially supported by the European Union in the new member states as well.

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<sup>1</sup> According to the Eurobarometer survey of fall, 2009, 58% of the Hungarian public is dissatisfied with their lives, the picture is primarily unfavorable in the case of the 40-54 age group: 7 out of every 10 people are dissatisfied with their lives. In regards to their future prospects, 14% of Hungarians are optimistic while the decisive majority is pessimistic about their future. (EC [2009], pp. 2-5.)

<sup>2</sup> We can learn more about the great magnitude - even in international comparison - of the expectations set towards the state in the survey of Tárki, 2007. See: (Medgyesi – Tóth et al. [2007]).

<sup>3</sup> In 2009, under the SIGMA program the OECD and the EU published an interesting study about the public sector reforms in Central and Eastern Europe. Data concerning Hungary are especially disappointing. (Meyer-Sahling [2009])

<sup>4</sup> The NPM movement has received numerous criticisms during the past decades, and as a result of the economic crisis reverse processes opposing to the mentality of the movement had taken place in the public sectors of the developed countries. We cannot cite unequivocally the New Zealand model anymore either. (Duncan – Chapman [2010]. In the dissertation I present the criticisms leveled at the NPM movement in details.

Consequently, even in Hungary significant amounts are at hand for the realization of the state reform, to which the governmental, public administration organizations can gain access mainly through the tenders run by the State Reform Operational Program.<sup>5</sup>

However, the effective introduction of the NPM reforms is not an easy task. The scientific community is zealously analyzing the experiences of the developing/less developed countries, including Central Eastern European countries. The story they are full of failures, and ineffective reforms or reforms with negative effects (Lodge – Gill [2011]), (Meyer-Sahling [2009]), (Beblavy [2002]), (Bouckaert et al. [2009]), (Marobela [2008]). According to our assumption, the NPM is not an everywhere applicable, globally adaptable integrated tool set; rather it is more like an approach and a value system, to which numerous management instruments can be fitted. *According to our hypothesis the introduction of management methods belonging to this approach can only be effective, if these instruments fit the informal and formal institutional system followed and applied by the society of the given country.* The institutional fit is necessary, but not sufficient condition of the successful introduction of a given NPM technique. The talent or inadequacy of the government that is carrying out the implementation, and the other external environmental factors that are prevailing in a given place and time can fundamentally influence the success of the implementation. In the current study we exclusively focus on the institutional factors. The reason behind is on the one hand that the institutional fit according to our hypothesis determines which reforms worth carrying out in a given institutional environment. On the other hand, a given society's institutional system shows strong stability in the short- and in the mid-run, so in the given decision situation it should be considered as a basic condition, the knowledge of which has a fundamental importance for the decision makers. The objective of our study is to scientifically analyze and to answer the following question: *Do informal and formal institutions that provide the cluster of institutions for the social and especially inside of that the economic and political processes influence, and if yes, then how and to what extent, the opportunities for the successful implementation of the management techniques being introduced under the rubric of the NPM movement?*<sup>6</sup> Besides this, the author of the study wishes to answer the question, if

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<sup>5</sup> The state reform programs supported by the previous government are categorized by the OECD under the NPM movement. See: (Meyer-Sahling [2009], p. 17.)

<sup>6</sup> The notion of the “cluster of institutions” is not used uniformly by the various authors. See: Gottlieb [1953] ties the notion to economic systems. The ideas of Gottlieb in Hungarian are summarized by Bara – Csaba – Gedeon ([2000], pp. 18-19.). Acemoglu – Johnson – Robinson [2002] in their paper primarily associates the notion with property rights. In the current study, under the notion of the cluster of institutions we think of the informal institutions (norms, traditions, habits, the national culture as understood by Hofstede) embedded in the core texture of society and the formal institutions (legal system, as the constitution and laws), which with their

the above described hypothesis is confirmed: *Can the reforms belonging to the NPM movement be successfully introduced and sustained in the long-run taking into account the cluster of institutions characteristic of Hungary?*

## 2. Hypotheses

As all scientific work, the current study is also in quest for an answer to an anomaly. The author as a consultant has provided recommendations for the introduction of performance management instruments at numerous local governments, often held multi-day trainings and courses about the application and the methodology of the introduction of these management instruments belonging to the NPM movement. As a consultant, with his practical experiences and knowledge gained from the literature, he tried to aid Hungarian local governments to improve their organization, their productivity and efficiency with similar management instruments to the developed Western European practices. The experiences amassed show that the number of successful projects is significantly less than the projects ended with a failure (or with changes not applied or only surviving for the short-run). The research questions of this dissertation stem from this personal experience of failure.

The public administration systems of the new EU member states, among them Hungary, are dysfunctional, their moment of inertia, their resistance against the application of the management instruments offered by the NPM movement is surprisingly large, the reasons of which is worth to be analyzed. How to explain this at the system level? Can the NPM movement be applied in Hungary, or our institutional system makes us unsuitable for their application from the outset? The question can be approached from several levels, however, the examples of Hungary and of the developing countries show that we are not faced with a change management problem at an organizational level; rather we are facing a puzzle at system level.

Based on these, in the study we are searching for an answer to the question: What institutional factors play decisive roles in the effectiveness of the reforms related to the NPM movement?<sup>7</sup>

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stability and strong social acceptance provide the efficiency of the social, economic and political process for the long run.

<sup>7</sup> From 2011, with the support of the European Union, as part of the Seventh Framework Programme, the public administration experts of 11 universities of 10 countries are searching for answers to similar research questions as posed in the current dissertation. The research titled *Coordination for Cohesion in the Public Sector of the Future* is attempting to evaluate the NPM. From Hungary, the Department of Public Policy and Management of the Faculty of Economics of the Corvinus University of Budapest takes part in the research with the leadership of Dr. György Jenei and Dr. György Hajnal. The outcomes of the research can be retrieved from the following homepage: [www.cocops.eu](http://www.cocops.eu).

Research questions:

- I. *Do informal and formal institutions that provide the cluster of institutions influence, and if yes, then how and to what extent, the probability of the successful implementation of the reforms being introduced under the rubric of the NPM movement?*

Hypotheses associated with the question:

1. *A reform under rubric of the NPM movement will be unsuccessful most likely in a country, where informal institutions, in other words the values of the society, do not fit the value system of NPM.*
  2. *The influence of informal institutions prevails stronger in respect to the success of NPM reform, than the influence of formal institutions. If informal and formal institutions influence the likelihood of the success of a given reform in opposite ways, then the influence of informal institutions will prevail stronger, than will the influence of formal institutions.<sup>8</sup>*
- II. *What kind of institutional framework, in other words informal and formal institutional constellation, is necessary in a given country for successfully implementing a reform belonging to the NPM movement?*

Hypotheses associated with the question:

3. *For the success of a reform belonging to NPM movement there is a need for an informal institutional constellation that is aligned with the approach of NPM movement. Therefore, a society that is fundamentally pro-market and pro-competition, individualistic, characterized by small power distance, and has informal institutions with a high tolerance towards uncertainty, can adopt these reforms successfully.*

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<sup>8</sup> The exact definitions of the formal and informal institutions are included in the dissertation. From the methodological point of view, here we only note that, when describing and evaluating the results we must take into consideration that it is not possible to comprehensively capture the notions of informal and formal institutions through proxy variables. We call attention to this methodological limitation in the dissertation.

4. *For the success of a reform belonging to NPM movement there is a need for a formal institutional constellation that is aligned with the approach of the NPM movement. This assumes the support of decentralization and democratic political system.<sup>9</sup> For the introduction and the execution of a NPM reform there is a need for significant political support. Thus, according to our hypothesis the individual electoral district type election system, that favors large political parties, facilitates better the success of the reforms, than the proportional electoral systems do. The legal system is also part of the formal institutions, so in this case, it can be assumed that the Anglo-Saxon traditions, the common law system fits the best the spirit of NPM reforms.*

III. *In which cases do informal and formal institutional factors strengthen and weaken each other's influence with respect to the NPM reforms?*

Hypotheses associated with the question:

5. *According to our hypothesis, there is interaction between informal and formal factors, which influences the effect of the given factor on the success of NPM reforms.*

6. *Informal institutions opposing the approach of NPM movement are offsetting the influence of those formal institutions that point to the same direction and the spirit of the NPM movement. Thereof in this case the implementation of NPM reform is likely to be doomed to end in failure.*

7. *Formal institutions are able to prevent the successful implementation and application of NPM reform in the short-run, even in the case, when informal institutional factors point to the same direction of the value system of NPM.*

IV. *Can a successfully applied NPM reform from a given institutional environment be successfully replicated in another, different institutional environment?*

Hypothesis associated with the question:

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<sup>9</sup> Decentralization contributes to the stronger prevalence of the interests of the citizens, and at the same time it channels the scattered knowledge of the members of society into the community decision making.



8. *A reform belonging to the NPM movement can be only successful through the existence of a specific cluster of institutions. In other words it cannot be replicated, and the reform will be unsuccessful in an environment that is at the opposite of the spirit of the NPM movement.*

V. *Can the reforms belonging to the NPM movement be introduced and effectively sustained in the long-run, taking into account the cluster of institutions characteristic of Hungary?*

Hypothesis associated with the question:

9. The countries of Central and Eastern Europe, so Hungary as well, have significantly different informal institutions and partly different formal institutions in comparison to the Anglo-Saxon and the Western European countries. Therefore the imitation of elsewhere successful NPM reforms, independent of all other circumstances, will be unsuccessful.

### 3. Methodology

Following the introduction of the hypotheses, our applied model is presented in this chapter. The model aims to answer the research questions, and to confirm or to reject the hypotheses. However, before the structure of our model is depicted in details, we wish to clarify the notion of the “model” in the social sciences.

There are numerous definitions for the word “model” in the literature. (Hofstede [1981], p. 16.) As we see, the development of a scientific model is one of the decisive phases of the theory building process, when we attempt to analyze a social scientific phenomenon that has “relatively stable characteristics” (Leontief, [1986], p. 4. in: Hy - Wollscheid [2008], p. 788.) in a way that we are aware of the number of factors influencing the given phenomenon. Finally, we only concentrate on those that in our opinion are the most important ones. An important characteristic of the scientific model building is that it is based on the theories accepted by the scientific community and it can be tested empirically. The result of the test is accessible and reproducible by anyone. Thus, this way the models contribute to the development of science: by building on the theories accepted in the given time period, by either refuting or expanding them, they lead to new theories.

When developing our model we considered the above described principles. Thus, we set out from the theories of the new institutional school, and we only included in our analysis those explanatory variables responsible for the success of the reforms belonging to the NPM movement, which we considered as the most important ones. We quantified with the aid of proxy variables the given blocks of the model, in other words the informal and formal institutions. Following that by running the model with the help of statistical methods we tested our hypotheses.

During the development of the model we set out from the model of Williamson ([1998] and [2000]), which by defining the possible time intervals of each institutional level establishes that informal institutions in the long-run ( $10^2$  and  $10^3$  years), formal institution in the mid-run (10 and  $10^2$  years) are unchangeable, while the factors linked to the government can be changed even in the short-run (1 and 10 years). However, when collecting the data for the model, we did not take into account the Williamsonian time intervals assigned to each level. According to Williamson's model in case of informal and formal institutions it would have been enough to gather data from only time period, from the 1980's. However, we did not follow that, because Inglehart – Baker's [2000] research unequivocally highlighted that the proxy variable used by us change even in the shorter-run. At the same time Inglehart – Baker ([2000], p. 49.) point out that this does not contradict Williamson's theory, since the changes in the data of the World Value Survey (WVS) and the European Value Survey (EVS) do not affect the core of culture. By assuming the changes of descriptive, independent variables, we do not make a mistake at all, at worst we are carrying out unnecessary work, as this way we can guarantee that the cause (independent variables) in time precede the effect (dependent variable). Data was chosen, following the logic of the model, so it always contains information from the preceding years of the reforms. Thus, in line with the implementation of the reforms in the case of some countries data was used from the 1980s,<sup>10</sup> in the case of certain countries data was used from the 1990s,<sup>11</sup> while in the case of the Central and Eastern European countries<sup>12</sup> we used data from the 2000s.

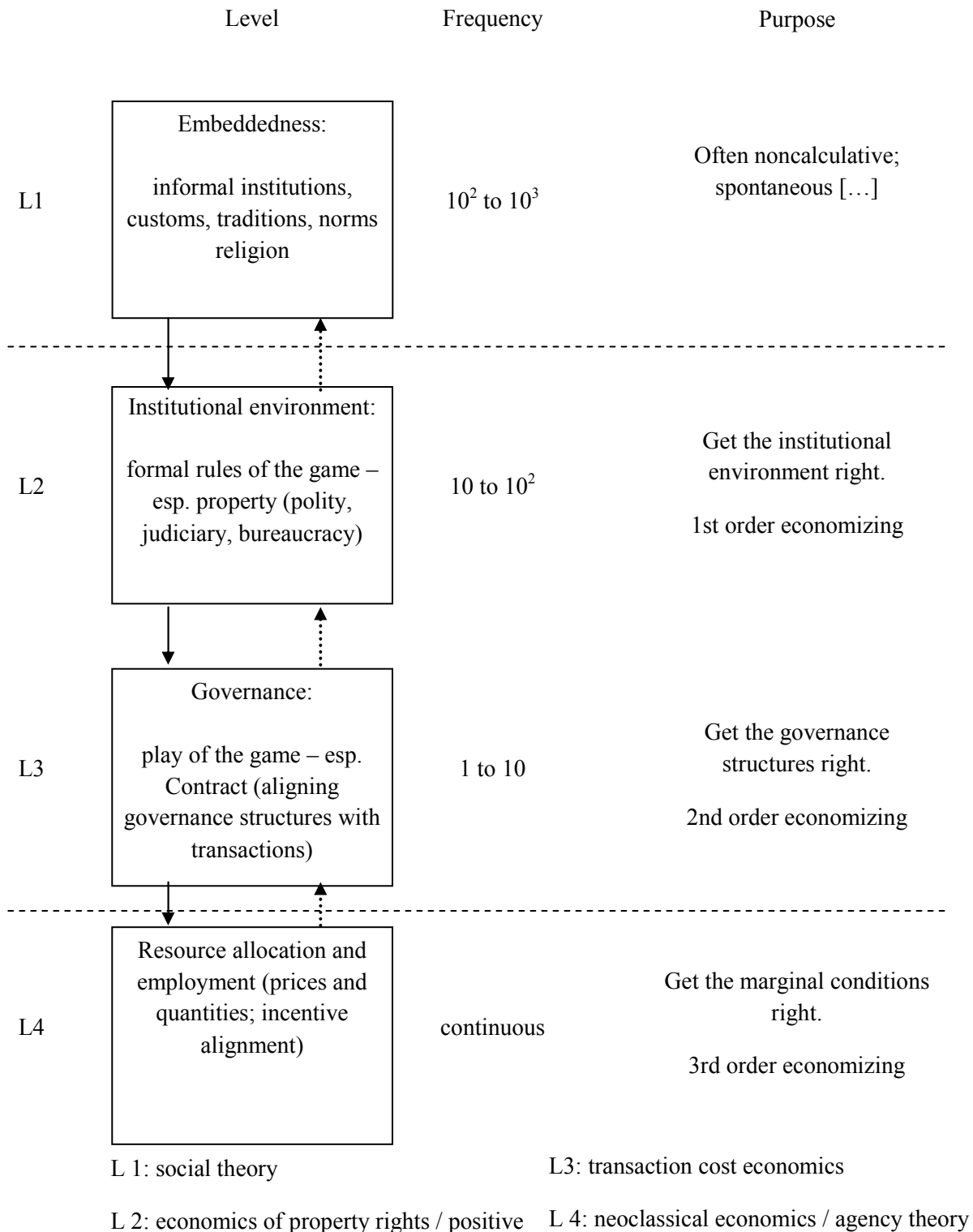
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<sup>10</sup> This group includes the United States, Australia, the United Kingdom, Holland, Canada and New Zealand.

<sup>11</sup> Those countries, which carried out the reforms mostly during the 1990s: Austria, Belgium, Denmark, Finland, France, Greece, Ireland, Germany, Norway, Italy, Portugal, Spain, Switzerland and Sweden.

<sup>12</sup> The following Central and Eastern European countries were included in the analysis: Bulgaria, Czech Republic, Estonia, Croatia, Poland, Latvia, Lithuania, Hungary, Slovakia, Slovenia and Romania.

Figure 1.  
The Economics of Institutions



Source: Williamson ([2000], p. 597.)<sup>13</sup>

<sup>13</sup> On the concept of *polity* used by (Williamson [2000]) see: (Urbán [1995], pp. 270-278.)

Based on Figure 1, Williamson's model is briefly introduced. The first level of the model contains those factors, which – according to our hypothesis – decisively influence the successful implementation of NPM reforms. These factors have been often considered even by the new institutional economists as givens. According to Williamson [1998], these include the rules that even unconsciously followed by the members of society. North ([1991], p. 97.) called this block informal institutions, and he classified social norms, traditions and habits under this group. It is in this block of our model, where we apply the notion of culture in Hofstede's sense, since as Hofstede – Hofstede ([2008], p. 35.) writes:

“The culture practically consists of the unwritten rules of the social game.”

The second level contains those formal systems of rules that North [1984] calls formal institutions, and which include the system of property rights, the constitution and laws. These are the formal rules of the game, which obtain their form and become accountable in the social space created by informal institutions.

The strength of the regulating power of formal institutions varies across cultures; in certain societies it is stronger, while in others it is weaker. The contribution of the formal institutions to the regulation of the social processes (as formal rules of the game) fundamentally depends on the informal institutions. In regards to these interrelations and mechanisms still numerous open questions exist, in any event based on the research the historical determination of these processes is clear. (Greif – Tabellini [2010]), (Greif [2006]) The changing of the formal rules of the game is also a slow process, which take place according to Williamson ([1998] p. 27.) primarily through the influence of external factors, so as a result of civil wars, economic crises, foreign occupation, collapse of political systems.

For the third and forth factors, namely the changes of the government and the resource allocations, we can bring up examples from our lives as well. These levels usually pertain to the current workings of the system within the framework defined by the rules of the game established by the first and second levels. While the first two levels regulate what the social actors can do, on these levels the emphasis is placed on the question of how.

The first block of our model includes the notion of national culture as well. According to Hofstede – Hofstede ([2008], pp. 38-43.) culture is built up like an onion. At its core, we can find those social values that are extremely resistant, so in time they rarely change and in a given moment they can be considered as unchangeable. Whereas the outer layers of the onion consisting of the rituals, heroes, symbols – that are jointly called by Hofstede as “practices” –

change more easily and faster during the course of time. When combining Hofstede – Hofstede’s [2008] notion of culture and Williamson’s [1998] institutional economics we must keep in mind that the first level that is called by Williamson “embeddedness” basically corresponds to the inner core of Hofstede’s cultural onion, namely to the values.

In the next section the model by which we wish to analyze the likelihood of the successful implementation of the NPM reforms is introduced. The model is quite simple, with a static structure, and it contains all together four explanatory and one outcome blocks. In Figure 2. the interactions between the various blocks are not indicated separately in order to simplify the introduction of the model, since the main direction of causality according to our hypothesis is clearly heading from block 1. through blocks 2, 3, and 4. to the outcome variable. All of this, however, does not mean that during the statistical analysis the interactions do not come to light, only that we find it sufficient to call attention to the main cause and effect interrelation, when illustrating the model.<sup>14</sup>

During the analysis the data for 31 countries has been processed. Beside the 27 countries<sup>15</sup> of Europe we included in the analysis the United States, Australia, Canada and New Zealand. The database of the European countries has been complemented with the Anglo-Saxon countries, because the NPM reform movement had developed the earliest and it transformed the public sphere at the most depth and width in these countries. (Barzelay [2001])

During the description of the model each of its blocks are depicted. Following the introduction of the independent variables, the measurement of the success of the NPM reforms are reviewed. Capturing the notion of success is key to the workings of the model, so our recommended technique is described in more details. The operationalization of success is necessary, when we wish to determine the likelihood of a successful implementation of an NPM reform.

We will not deal in details with all blocks of our model, since for answering our research question it is sufficient to examine and to empirically test only the first two blocks and the success of the NPM reforms. The reason behind this is that primarily we are interested in the what question, in other words under what framework of conditions it is worth to set out to implement an NPM reform. As a result, we are exclusively focusing on the analysis of the necessary, but not sufficient conditions: we are examining the relationship between the

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<sup>14</sup> During the development of the model I was inspired by Kornai’s ([1993], pp. 380-388.) explanatory theory of the workings of socialism and the model related to that.

<sup>15</sup> The list of the European countries does not match the member countries of the European Union. The countries included in the analysis: Austria, Belgium, Bulgaria, Czech Republic, Denmark, United Kingdom, Estonia, Finland, France, Greece, Holland, Croatia, Ireland, Poland, Latvia, Lithuania, Hungary, Germany, Norway, Italy, Portugal, Romania, Spain, Switzerland, Sweden, Slovakia, Slovenia.

informal and formal institutional system and the reforms belonging to the NPM movements. According to our hypothesis there will be a strong correlation between the first two blocks of the model (informal and formal institutions) and the successful implementation and application of the reforms belonging to the NPM movement. The analysis does not cover the examination of the necessary conditions (3. and 4. blocks) Therefore, in the case of those countries of which we can state that their reform attempt was futile, we cannot decide whether it was unsuccessful, because the approach and set of instruments of the NPM movement did not fit the institutional system of the country, or merely the decision makers of the given time period did not possess the appropriate competence and skills for the successful implementation of an NPM reform or the interrelations between the NPM reforms being introduced impede the successful reforms.<sup>16</sup> Therefore, based on the current study an answer will be given to the following question: the realized forms of NPM reforms are compatible with the institutional system of which countries, and with which they are not. The exact reasons behind the futility of a reform belonging to the NPM movement can be only uncovered by the analysis of the third block (governmental competences and skills) and the fourth block (the interrelations between the simultaneously introduced NPM reforms). This analysis includes the examination of the political and economic and other social processes at a given time and space, as well as the organizational culture of a given country's public sector. In other words all the factors, which a leader possessing the appropriate knowledge and experience is able to influence.<sup>17</sup> Besides the above, during the analysis those external factors must be also taken into account that cannot be influenced by the decision makers, and which define the decision makers' playing field in a given time period and space. These factors cannot be built into the model, but these factors should be also taken into consideration in an analysis that goes beyond the current study.

However, beside the above limitations we would like to call attention to that based on our analysis even in the case of the unsuccessful countries we will be able to decide with a great probability – but unequivocally – whether a given country was incapable of successful implementation of the reforms belonging to the NPM movement, because of its institutional

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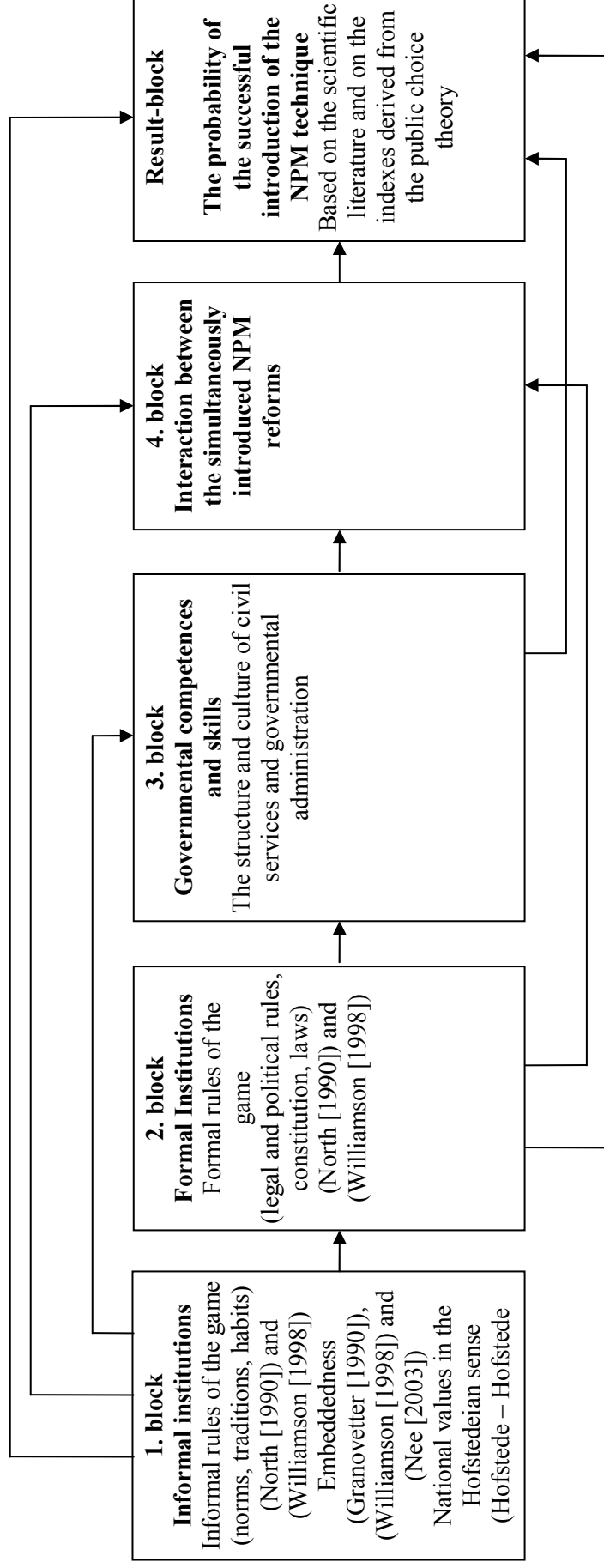
<sup>16</sup> However, by the analysis of the first two blocks we can gain information about the third block as well. As Pillay ([2008], p. 380.) states: „ Generally speaking, managers and leaders, as well as the people they work with, are part of a national society. In understanding their behaviour, one has to understand the society they live and function in.”

<sup>17</sup> The analysis of the reforms that influence each other in a given time period is to be particularly emphasized. During the introduction of the NPM reforms there can be an optimal order, which is to be followed by the decision makers in order to achieve success. Besides this, certain NPM instruments formulate conflicting expectations and objectives, so their concurrent introduction – because of the conflicting objectives - will lead to failure.

system or other factors, such as the lack of government abilities that caused the failure. If a country's institutional system is the same, or mainly similar, to the ones of the successful countries and yet its attempt to implement the NPM reforms was futile, then in the case of this country we can assume that the failure was not caused by the relationship to the institutional factors, rather it is explained by other causes, for instance it is linked to the government's abilities and the organizational culture dominant in the public sector.

Figure 2.

The causality between the factors determining the successful implementation of the NPM



Source: Own figure

Other influencing factors appearing in the literature: economic pressures, political support, social changes (for instance: growth in the number of skilled workers), political changes (weakening powers of the unions, increasing power of the non-elected public officials), changes in the civil sector (weakening of the professional interest groups, for instance: teachers, medical doctors, etc.), technological changes, pressures from the international organizations, fashion, etc.



## 1. block, informal institutions<sup>18</sup>

Informal institutions are the rules, unconsciously accepted and spontaneously followed by the individual, which make social coordination more fluent. They are the most efficient coordination instruments of the relationships between the many millions of actors making up society with various individual interests. Informal institutions change slowly, which is one of their main virtues, but this characteristic of theirs has drawbacks as well. They provide security in the changing world, but they hinder the development of the given society. It is difficult to say how informal institutions arise. Fundamentally they are a product of a learning process, which stems from the collective processing of past events. Societies experience a great deal of internal and external influences during their history. The survival of a given group/society depends on the successful answers given to these influences. The repeatedly successful solutions become embedded in the subconscious of the members of society and they help the successful adaptation of the members of society in the long-run. Embeddedness also means that the members of society unconsciously rely on these informal institutions for the solution of certain situations.

Informal institutions, independent of which definition we begin with, are intertwined with the notion of culture.<sup>19</sup> According to Hofstede ([1984], p. 389.):

“Culture can be defined as the collective programming of the mind which distinguishes the members of one category of people from those of another.”

Hofstede’s definition allows for a broad interpretation, in any case the “collective programming of the mind” highlights certain characteristics of culture. Programming means that the system automatically answers to certain effects with a given response. Capturing culture through programming makes it clear that informal institutions like traditions, also called by North informal constraints, are identical notions to culture, at least from the perspective of that both culture and the informal institutions are the efficient coordinating instruments of social – including even the economic and political – transactions.

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<sup>18</sup> See the proxy variables of the informal institutions in the dissertation.

<sup>19</sup> This is also stated by Pejovich ([1999], p. 166.): “Thus, informal institutions are the part of a community’s heritage that we call culture.”

## **2. block, formal institutions<sup>20</sup>**

Following Williamson in the second block we wish to capture formal institutions. Williamson ([1998], p. 27. and [2000], p. 598.) classifies the following into the second block: public policy decision making, legislation and bureaucracy, the constitution, laws and property rights. Williamson ([2000], p. 598.) defines the second block as the following:

„Constrained by the shadow of the past, the design instruments at Level 2 include the executive, legislative, judicial, and bureaucratic functions of government as well as the distribution of powers across different levels of government (federalism). The definition and enforcement of property rights and of contract laws are important features.”

This definition is very important in regards to the selection of the proxy variables! In order to capture the second block, it worth to capture the following with proxy variables: legal system, political system – including for instance the electoral system, the relationship and the distribution of power between the local government system and the central government. In addition to this of course, we must measure in some way the strength of property rights and contract enforcement, when we include this block into our model.

The further characteristic of formal institutions is that they increase the stability of the workings of society by extorting the expected conforming behaviour from the members of society. This is necessary, because social actors only follow informal institutions with a certain probability; the possibility of deviant behaviour always exists. This characteristic assumes that formal institutions mainly stem from informal institutions.

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<sup>20</sup> See the proxy variables of the formal institutions in the dissertation.

### **The capturing methods of success**

Following the short introduction of the independent variables, a review of capturing the success of the reforms belonging to the NPM movement is presented. All together 31 democratic market economies are analysed at the system level, where the analytical units are nation-states, which are examined based on their reforms realized in various time intervals (1980-1990, 1990-2000, 2000-2010). The time intervals of the analysis are short- and mid-run, so in the case of New Zealand the realized reforms taking place between 1980 and 1990 are considered as successful despite that from 2000 more and more criticism has been expressed in regards to the effectiveness of the reforms. (Duncan – Chapman [2010]) (Lodge – Gill [2011]) Our objective is to provide a comprehensive, holistic analysis of the NPM reforms, we are not examining certain sectors and certain solutions, rather we decide based on professional publications about the realized reforms in the given decades, and based on the composite indicators developed by us, like the citizen interest indicator and the political interest indicator. Decisions made based on the literature are not unambiguous, since it is conceivable that another researcher to a certain extent could come to a different conclusion. This can even be the result of personal judgment, but it can also be the result of that he or she has read other studies. In order to arrive to a scientifically provable conclusion, during the analysis of the statistical model we will examine how robust the measurement results of success are. For the sake of this, we will attempt to capture the success of the reforms belonging to the NPM movement in several ways.

#### *The success of the NPM reforms based on the literature*

In our dissertation we will try to capture the success of the NPM reforms all together in three ways. One of the approaches is based on the analysis of the literature. In doing so, the following procedure was used. Each country's success in the implementation of the NPM reforms in the given decade is classified on a scale of 1 to 10, where 10 was the best and 1 was the worst value. Based on the literature analyzed, which means several hundreds of journal articles and books cited in the references, an expert estimation of the success of the given reforms is provided. A judgment on success is made based on the breadth and the depth of the reforms. By breadth we mean which sectors of the public sector and which levels of public administration (central government, levels of local governments) were affected by the reforms. By depth we mean the institutionalization of the realized reforms (how enduring is the influence of the given reform) and their diversity (what kind of NPM instruments were used). In the case of each country, at least four independent expert analyses are taken into

consideration, out of which at least two was written by the expert of the given country. During the selection of the studies analyzed, we aimed to develop our conclusions based on the evaluation of as many sectors and as many NPM solutions as possible.

*The success of the NPM reforms based on the citizen interest indicator*

We developed the citizen interest indicator (CII) based on the public choice theory. Our starting point was that the NPM aspires to maximally satisfy citizens' needs and based on this it sets up a clear hierarchy among the stakeholders of the public sector. Citizens are at the top of the hierarchy, and in democratic countries they decide by secret and general elections on who can hold possession of the political power. The objective of the politicians is the seizure of political power, thus they are forced to compete for the patronage of the citizens. Bureaucrats also follow self-interest pursuing, rational behaviour and they wish to attain their own selfish objectives. Their administrative authority by which they can attain their objectives stems from and depends on politicians, so bureaucrats are forced to keep in mind the interests of the politicians as well. The relationships between the various actors are characterized by asymmetric and incomplete information, by the rational ignorance of the citizens, and by the better advocacy skills of the smaller groups. Thus the above described interconnection of interest does not prevail entirely. NPM reforms wish to change this and they aim to enforce the interests of the citizens as strongly as possible.

Based on the above logic the CII aims to capture the objectives of the citizens. When devising the indicator on the one hand we set out from that through public institutions they should get as good quality of public services as possible. On the other hand all these services should be provided by the public sector at the lowest cost possible, since these expenditures are financed by the tax payers. Public services were captured through three areas: healthcare, education and employment policy.

Healthcare level was captured through the infant mortality rate indicator, to which data was gathered from the OECD Health Data database, and in the case of Bulgaria, Latvia, Lithuania, Romania and Croatia the Eurostat database was used.

Education level was measured by the Education Index of the Human Development Index that basically contains two variables. One measures the ability to read and write, while the other gives an indication of the number of students enrolled in school at several different grade levels.

For the third indicator of the level of public services the indicator of the working age employment rate for people between the ages of 15 and 64 was chosen. The source of the data

is the OECD. (OECD [2010/a]) The employment rate was included in the indicator, because according to the surveys of the Eurobarometer, citizens consider losing their job as the biggest social threat they might face.

The study of Tanzi and Schuknecht [1997] also confirms that the three above described indicators are suitable for the measurement of state interests. In our opinion, social welfare is in some manner related among others to infant mortality, secondary school enrolment and the unemployment rate.<sup>21</sup> We believe that the unemployment rate in terms of social welfare is less informative, than the rate that indicates the number of working age people actually working in a society. The unemployment rate is an indicator that is more easily influenced by a given government or in many cases certain groups of society fall outside of the scope of this indicator.

Based on Hood ([1995], p. 103.) the resources spent on public services, which also define the size of the state, can be measured by four statistical indicators: (1) general government sector employment in percentage of total employment, (2) general government final consumption expenditure in percentage of GDP, (3) social security spending in percentage of GDP, (4) tax revenues in percentage of GDP.

Since public expenditures are primarily financed by taxes, the tax revenue in percentage of GDP is an important indicator of the size of the state and its expenditures. The cost of public services is mostly perceived by the people through taxes.<sup>22</sup> The magnitude of taxation was established based on the data from the OECD ([2009], pp. 76-78.) and on the study of Lupi [2010] introducing the Eurostat data.

Hood [1995] did not take into account that the state can live beyond its means, in other words, it can have more expenditures than revenues, which can be sourced from the international financial markets. For measuring this, the general government gross debt in percentage of GDP indicator was utilized.

Based on Hood [1995], for an indicator of the size of state the general government sector employment in percentage of total employment indicator was utilized. This indicator, as the previous one, do not cover the entire public sector, rather it remains in the confines of the

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<sup>21</sup> As Tanzi – Schuknecht ([1997], p. 167.) put it: „The relationship between these indicators and general welfare is of course more obvious for some than for others; but in all cases an argument can be made that changes in them should affect the general welfare.”

<sup>22</sup> The various taxes are perceived by the people at various magnitudes. In regards to this we must mention the *Mill hypothesis*, according to which indirect taxes are less perceptible for the citizens and because of that they underestimate them. See on this in more details: (Sausgruber – Tyran [2005])

general government. Unfortunately, there was no available data for the entire public sector in the case of either indicator.<sup>23</sup>

Finally, as an indicator the general government final consumption expenditure in percentage of GDP was also applied. Hood [1995], Rodric [1996] and many other authors capture the size of the state by the rate of the expenditures of the general government compared to the GDP. This indicator is suitable to characterize the size of the state, but it does not examine where the state spends the certain percentage of the GDP. An expenditure indicator that fits better to the objectives of the CII would focus on the public services and public procurements. The data for the general government final consumption expenditure in percentage of GDP indicator is sourced from the Development Indicators database of the World Bank.

Following the introduction of the various indicators, one can ask: so how is the citizens' interest indicator pieced together? When calculating the indicators, from the three variables measuring the quality of the services by weighting them equally an indicator describing the quality of the public services was developed, and from the four variables measuring government expenditures by weighting them equally as well, an indicator measuring governmental expenditures was created.<sup>24</sup> In both cases the given elements were standardized, so for indicators that were improving in a reverse direction, like the infant mortality rate, we turned them around in a way so in the new indicator the higher values would point towards the positive direction.<sup>25</sup> After all this, the three and in the case of the expenditures the four now standardized dimensions were averaged.

The CII in reality is an index that measures efficiency, since we divide the value calculated from the quality indicators by the values calculated from the expenditures indicators:

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<sup>23</sup> Employment data is mainly sourced from the Economic Outlook database of the OECD [2010/b], while in the case of Bulgaria, Latvia, Lithuania, Slovenia, Romania and Croatia we collected the data on the number of people employed in the public sector from the ILO database. We established the proportion of the total number of people employed in the same six countries based on the Eurostat database, and we sourced the data for all other countries from the Economic Outlook database of the OECD.

<sup>24</sup> The application of equal weights is the same kind of decision as if we used varying weights. It would be possible to weight the indicators according to the Eurobarometer, in other words based on what the citizens of the European countries consider as more important problems. Accordingly, education would receive a multiplier of one, health would get two and employment would be given four. In our opinion however, it is difficult to decide which should be considered more important, since aside from the above methodology we could weight them based on other methodologies as well, so for instance based on the proportion the countries included spend on average on their education, or their healthcare and employment policy systems. Since the importance of the three public services depends on the circumstances, we decided that they are equally important for society.

<sup>25</sup> This means that for instance a lower rate of infant mortality will receive a higher value in the indicator.

CII = Quality of public services / Magnitude of government expenditures

Since for capturing the success of the NPM reforms we are interested in the changes of this indicator, we calculated with the steepness of the indicators, in other words with the magnitude of the changes during a given time interval in the case of each country (for instance in the case of the United Kingdom the steepness of the employment data during the time period between 1980-1990). We started out from the assumption that those countries, which had better values even in the beginning of the time period under examination, can only achieve a smaller improvement in the given decade. This will be corrected in the model by the filtering out of the effect of the measured average of the CII in the given decade.

The indicator developed this way, as all composites indices, aside from its advantages, has significant disadvantages as well. Numerous such factors may influence the value of the indicator, in the case of which the effect of the NPM reforms is difficultly demonstrable, or it is independent of it. Besides this, citizens have numerous other interests, for instance for certain individuals equality, the principle of solidarity are more important, or at least as important as self-interest. Based on public choice theory, the current indicator assumes self-interested citizens, which not necessarily reflects reality.

*The success of the NPM reforms based on the politicians' interest indicator*

During the development of the politicians' interest indicator (PII) we started out from the assumption that under democratic circumstances elected politicians compete for re-election. To achieve this, the objective of the politicians is to have the trust of the citizens grow in the public administration led by them and identified with them, and to have themselves re-elected personally. The indicator contains two variables with equal weights. One originates from the databases of the World Value Survey and the European Value Survey, and it measures the citizens' trust in the public administration. The other indicator shows the number of prime ministers in office during the given decade in the given country. The magnitude of trust towards the public administration was analysed based on the first WVS / EVS surveys after the NPM reforms.

The other indicator is the number of prime ministers in office for the given decades. This indicator specifically measures the change in the primarily leader of the country. Since we wish to capture the political stability of the politicians and not the stability of the political system and the political parties, we are not looking at the number of government changes; rather the changes in the person of the prime minister was considered.

The big advantage of the indicator is that it is simple, but at the same time that is the source of its shortcomings as well. On the one hand, the change in the person of the prime minister does not cover all sectors and public administration levels affected by the NPM reform. It can also give rise to further headaches that a decline in the trust towards public administration does not necessarily cause immediate political losses, since it is conceivable that a politician can compensate by other results / symbolic actions the weaker performance attained in this area. The chief shortcoming of the indicator is that numerous uncontrollable factors can influence its value, and it is not exclusively dependent on the performance of the NPM reforms. In our opinion, in the case of those countries, where the NPM reforms became the focal point of public discourse during the decade under investigation, the NPM reforms significantly influenced the value of this indicator. As Pollitt ([2007], pp. 10-25.) also considers discursive convergence as the strongest, we share this opinion, that the NPM reforms in most Anglo-Saxon and Northern and Western European countries has determined the public discourse, while we have to admit that in case of the Central and Eastern European countries this is less true.<sup>26</sup>

### **The description of the statistical analysis**

Our model, which was developed with the help of the above described variables, was verified through statistical methods and secondary sources. We used SPSS software for the statistical running of the model. First, the number of the proxy variables used for capturing the informal and formal institutions found on the left side of the model was reduced. To achieve this, a principal component analysis was carried out.

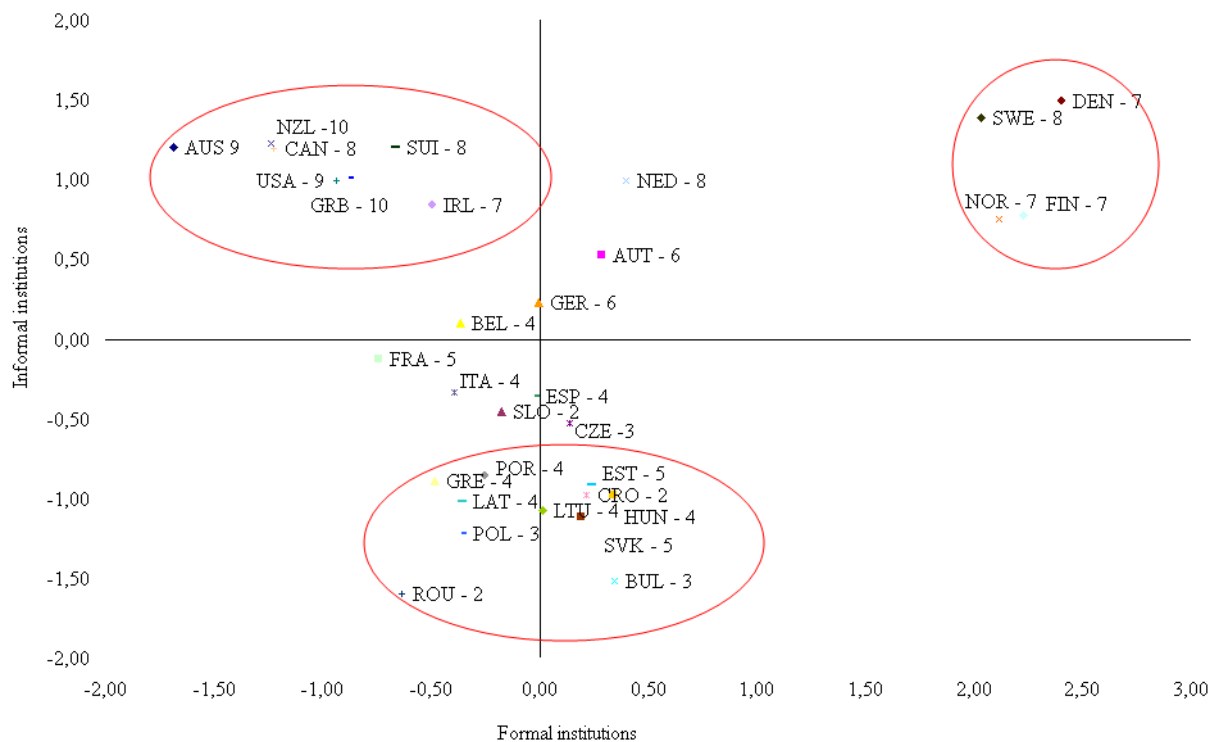
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<sup>26</sup> In his book chapter Van de Walle [2007] measured the magnitude of trust towards the public sector by the question of the WVS, which was also applied by us. In his writing he identified numerous problems related to this question of the WVS, among others for instance that the English term civil service was translated differently in the various countries. In the Hungarian survey the term „közigazgatás” is used. Based on the analysis of Van de Walle [2007] we can state that the socio-demographic and the socio-economic variables explain to only a very small extent the level of trust towards the public administration. The research of Listhaug – Wiberg [1995] quoted by Van de Walle ([2007], p. 183.) arrived to the same conclusion as well. These results suggest that we have a very good reason to believe that there is a strong relationship between the values of the PII and the success of the NPM reforms.



Figure 3.

The values of the informal and formal intuitional factors in the case of the 31 countries



Source: Own figure<sup>27</sup>

After the principle component analysis, several versions of our model were developed to test the reliability of our results. All variations are based on the path analysis model, which consists of the series of related multivariate linear regressions. The success of the NPM reforms is captured through the three ways we have described already, in other words through a 10 item success scale based on the literature, which was also tested with a 5 item success

<sup>27</sup> The high values of the principle component of informal institutions are characteristic of such societies, where the people have the following self-image: they are satisfied with their lives, the direction of which according to their opinion can be influenced by them, and they experience and express the joys of life. They turn to each other with trust, they tolerate social differences, and they think liberally about the world, power distance between people is small. They think as individuals, in other words individual freedom is important for them, they are willing to take risks, and they do not expect the state to create their welfare. They do not support the intervention of the state either in the economy or in their lives; rather they feel confidence in themselves, in the market and in free competition. When setting their objectives they rather focus on the short-run. Based on this description the countries, having high values for the principal component developed from the variables of the informal institutions, are tolerant, pro-market and pro-competition, individualist societies built on mutual trust with post modern value systems (Inglehart [1999]), and their objective is to maximize individual happiness.

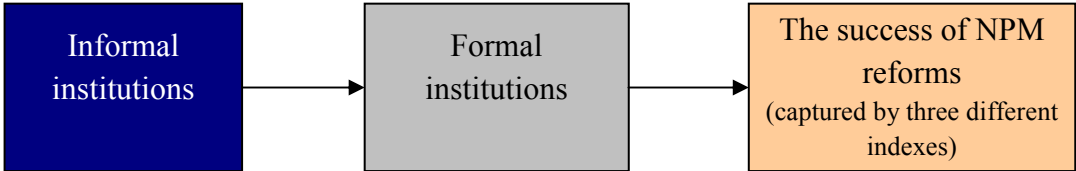
The high values of the principle component of formal institutions is characteristic of such countries, which have Scandinavian type legal system, proportional and party list electoral system and they have such unicameral parliament in which there is a high proportion of female representatives. In addition, in these countries the position of local governments is stable; they have significant resources, which are complemented by significant authority and human resources. The Anglo-Saxon legal traditions, the electoral system built on simple majority, or the bicameral parliament have a negative correlation with the value of the principle component.

scale, through the citizens' interest indicator and through the politicians' interest indicator. Before running the model and presenting the results we would like to highlight one important condition. We consider the 31 countries included in the analysis as the population, in other words we do not consider the countries chosen by us as a sample. It follows that the conclusions of this study cannot be applied to and generalized for the other countries of the world. The reason for this is that the subject of our analysis, the NPM movement, is only able to exert positive influence in a democratic and pro-market environment, since the roots of the movement go back to such economic theories, which cannot be applied in authoritarian and anti-market environments. There is an important methodological implication of that, we consider the countries included in the analysis as a population and not a sample, since this way the significance level analysis loses its importance. In addition, there is no need for those analyses that assess in what magnitude the sample fits the characteristics of the population.<sup>28</sup>

The path analysis models are in reality a series of regression models suitable for testing the cause and effect relationship deductively devised by the researcher.<sup>29</sup> By developing a path analysis model a probable causal direction can be tested. The causality applied in the current study is the following:

Figure 4.

The direction of the causality of the model (exogenous variable: informal institutions)



Source: Own figure

We know that numerous other factors influence the success of the NPM reforms (see for instance the 3. and the 4. blocks of our model), however we will obtain their combined influence and not the influence of each factor by itself. Let us assume that in regards to the

<sup>28</sup> So there is no need for multicollinearity analysis either (Székelyi – Barna [2002], pp. 274-277). Based on Székelyi – Barna ([2002], p. 318.) we also know that: „In case of the path analysis models there is need for interdependency between the variables of the model, and because of this at least in the first run version of the model (if all variables are included – I inserted the authors' own footnote into the text – M.R.) there is a specific need for multicollinearity.”

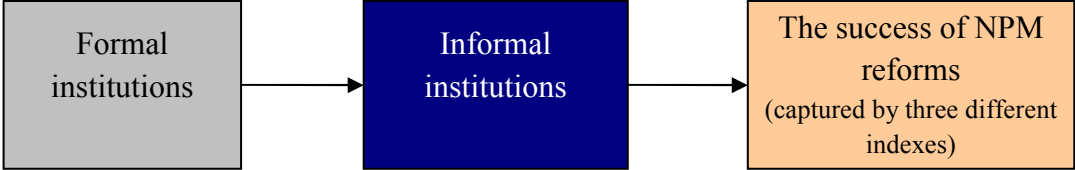
<sup>29</sup> The linear multivariate regression analysis is explained in details by numerous books (Székely –Barna [2002], pp. 227-252), (Hunyadi – Mundruczó – Vita [1996], pp. 673-739.), so we can set aside the methodological introduction. The limitations of the path analysis models are discussed in Székelyi – Barna ([2002], pp. 318-319.)

success of the NPM reforms the combined explanatory power of the independent variables included in our model is 25%, then the influence of the other variables explains it in 75%.

Aside from the causal direction mentioned above, we also analyze that if we assume that the formal institutions influence the informal institutions, then what results would we get.

Figure 5.

The causal direction of the model (exogenous variable: formal institutions)



Source: Own figure

There is a significant theoretical difference between the two directions, in terms of methodology the question is: do we consider the informal institutions or the formal institutions as the exogenous variable? We could also assume a symmetrical relationship between the two factors, so the arrow between them could point into both directions. However, we will not get numerical differences between the two approaches.<sup>30</sup> In addition, an important characteristic of path analysis models is that all variables included in the model are controlled by the previous variables in the model.

After running the path analysis models we can state that while as in the literature we found a strong correlation between the success of the NPM reforms captured by the politicians' interest indicator and the informal and formal institutions, we did not establish a relationship between the success measured by the citizens' interest indicator and the cluster of institutions. The results of the statistical analysis of our model highlight that there is a strong and clear relationship between the success of the NPM reforms and informal institutions, while the effects of formal institutions are significantly more modest.

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<sup>30</sup> This has computational reasons. In this case, when we use one independent and one dependent variable during the application of linear regression, then when we estimate the variables, the value of the standardized regression coefficient (beta), which is associated with the dependent variable, will not change. It helps the understanding if we imagine a coordinate system, in which the linear regression line is located. If we switch the two variables, then in reality this means the same as switching the x and the y axes, whereby the character of the line remains the same. Further explanation is that in the case of the bivariate regression (in the case of one dependent and one independent variable) the value of the regression beta is equal to the value of the correlation between the two variables. However, correlation is a symmetrical metrics.

## 4. Results

Following the evaluation of the models, now we can provide answers to the research questions of the current study. Let us look at our questions and hypotheses!

Our first question was the following:

- I. *Do informal and formal institutions that provide the cluster of institutions influence, and if yes, then how and to what extent, the probability of the successful implementation of the reforms being introduced under the rubric of the NPM movement?*

The following hypotheses were linked to the question:

*Hypothesis 1: A reform under rubric of the NPM movement will be unsuccessful with great likelihood in a country, where informal institutions, in other words the values of the society, do not fit the value system of the NPM.*

*Hypothesis 2: The influence of informal institutions prevails stronger in respect of the success of the NPM reform, than the influence of formal institutions. If informal and the formal institutions influence the likelihood of the success of a given reform in opposite ways, then the influence of informal institutions will prevail stronger, than will the influence of formal institutions.*

**Our answer:** Based on our analysis, informal institutions significantly influence the likelihood of the successful implementation of the reforms belonging to the NPM movement, and they drastically reduce the uncertainty associated with it. We claim that those countries are able to successfully implement the management techniques belonging to this reform movement, where informal institutions are compatible with the approach of the NPM reforms, in other words where social norms support liberal, pro-market and pro-competition values. The NPM reforms strongly rely on the private sector, on the power of the market. For this, there is a need for a well functioning market economy, the essential prerequisite of which is that the members of society have confidence in themselves, they should be entrepreneurial, and they should not wait for the state to solve their problems. Those values, norms, habits, traditions and national culture, which were captured by the positive values of the principal

component of informal institutions, are closely fitting to the value system of the NPM reforms.

Based on the statistical model we claim that the principle component of the formal institutions, by which the legal and political formal institutions of the countries analyzed were described, much more modestly influences the likelihood of the success of the NPM reforms, than the principle component capturing the informal part of the cluster of institutions. Therefore, a reform belonging to the NPM movement can be successful even if formal institutions of the given country do not support this, as long as informal institutions support the implementation and realization of the reform.

**Based on the above and in view of the results of the statistical analysis, we confirm and accept both of our hypotheses related to our first research question.**

Our second question was the following:

II. *What kind of institutional framework, in other words informal and formal institutional constellation, is necessary in a given country for successfully implementing a reform belonging to the NPM movement?*

The following hypotheses were linked to the question:

*Hypothesis 3: For the success of a reform belonging to the NPM movement there is a need for an informal institutional constellation that is aligned with approach of the NPM movement. Therefore, a society that is fundamentally pro-market and pro-competition, individualistic, characterized by small power distance, and has informal institutions with a good tolerance towards uncertainty, can adopt these reforms successfully.*

*Hypothesis 4: For the success of a reform belonging to the NPM movement there is a need for a formal institutional constellation that is aligned with the approach of the NPM movement. This assumes the support of decentralization and democratic political system.<sup>31</sup> For the introduction and execution of an NPM reform there is a need for significant political support. Thus, according to our hypothesis the individual electoral district type election system, that favors large political parties, facilitates better the success of the reforms, than the*

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<sup>31</sup> Decentralization contributes to the stronger prevalence of the interests of the citizens, and at the same time it channels the scattered knowledge of the members of society into the community decision making.

*proportional electoral systems do. The legal system is also the part of the formal institutions, so in this case we assume that the Anglo-Saxon traditions, the common law system fits the best the spirit of the NPM reforms.*

**Our answer:** The reforms belonging to the NPM movement will most likely be successful, if they are introduced in the cluster of institutions that fits the approach of the movement. Thus, the likelihood of the successful implementation is larger in such societies, where the members of society trust each other and the political institutions, satisfied with their lives and their financial state, individualists, confident in themselves and able to tolerate uncertainty and diversity, and have postmodern value systems. In case of formal institutions, our analysis did not yield such clear results. What we can claim with great likelihood is that the individual district electoral system fits better to the approach of the NPM reforms than the proportional electoral system, and the Anglo-Saxon legal origins fit better the NPM reforms than the Scandinavian legal origins, but even these statements do not mean a really decisive difference. Based on our analysis we can claim that it is not formal institutions that define the success of the NPM reforms, their influence is minimal compared to the influence of informal institutions.

**On this basis we can confirm our third hypothesis, while in the case of our fourth hypothesis we did not get a clear answer.**

Our third research question was the following:

III. *In which cases do informal and formal institutional factors strengthen and weaken each other's influence with respect to the NPM reforms?*

Our hypotheses associated with the question:

*Hypothesis 5:* According to our hypothesis, there exists an interaction between informal and formal factors, which influences the effect of the given factor on the success of the NPM reforms.

*Hypothesis 6:* Informal institutions opposing the approach of the NPM movement are offsetting the influence of those formal institutions that point to the same direction and the

spirit of the NPM movement, so in this case the implementation of the NPM reform is with great probability doomed to end in failure.

*Hypothesis 7:* Formal institutions are able to prevent the successful implementation and application of the NPM reform in the short-run, even in the case, when informal institutional factors point to the same direction of the value system of the NPM.

**Our answer:** We found a weak connection between informal and formal institutions. The strength of the relationship depends on those factors by which the institutional factors were captured. Since in regards to the success of the NPM reforms, informal institutions are dominant, so based on our analysis in case of any formal institutional constellation – characteristic of a liberal democracy and a market economy – the implementation of an NPM reform can be successful.

**If we examine our hypotheses associated with the question, we can state that out of these our results only confirmed our sixth hypothesis, and not the other two – the fifth and the seventh – therefore we rejected them.**

We rejected our fifth hypothesis, because based on our analysis it is not proved that the interaction between the informal and the formal factors would significantly influence the probability of whether we can successfully implement an NPM reform or not. Our sixth hypothesis was confirmed by our analysis, because the influence of formal institutions is compensated by informal institutions, while formal institution cannot do the same. We clearly confuted our seventh hypothesis with our analysis: formal institutions are not able to offset the influence of informal institutions even in the short-run, in other words, if informal institutions fit the values of the NPM reforms, then their implementation will be successful with great probability. Let us not forget that our models do not explain success in 100%, so the fitting of informal institutions only a necessary, but not sufficient condition of the successful implementation!

Our forth research question was the following:

*IV. Can a successfully applied NPM reform from a given institutional environment be successfully replicated in another, different institutional environment?*

Our hypothesis associated with the question:

Hypothesis 8: A reform belonging to the NPM movement can be only successful through the existence of a specific cluster of institutions, in other words it cannot be replicated, and the reform will be unsuccessful in an environment that is at the opposite of the spirit of the NPM movement.

**Our answer:** Based on our study only a more complex answer can be provided to this research question. Since according to our results the influence of informal institutions dominates, an NPM reform can be successfully replicated in such institutional environment, where informal institutions are the same, even when formal institutions differ. This is the case for the Anglo-Saxon and the Scandinavian countries: in regards to the NPM reforms the relevant informal institutional factors are almost the same. It is also important to highlight that the informal institutions of these countries are not completely identical, so the NPM reforms are realized differently. Imitation, simple copying would not have been successful even in this case, as knowledge and experience sharing can only be successful, if they are fitted to the informal institutions of the given country. The more different the informal institutional systems of two countries, the bigger the chance of failure during the adaptation, and all the more the NPM reforms to be implemented must be modified. Beyond a certain level of institutional dissimilarity, reforms reflecting the values of the NPM movement can be realized only with a very small probability. In the case of the countries that have culture significantly differing from the values of the NPM movement, other types of reforms can be successful with greater probability. These can even lead to similar results as the NPM reforms. This question however demands further research. Based on the current study we cannot provide a scientifically valid answer to the question of what type of reforms could lead to similar results in the Central and Eastern European countries.

**Based on the above, we can confirm and accept our eighth hypothesis on the basis of the results of this study.**

Our forth research question was the following:

*V. Can the reforms belonging to the NPM movement be introduced and effectively sustained in the long-run taking into account the cluster of institutions characteristic of Hungary?*



Our hypothesis associated with the question:

Hypothesis 9: The countries of Central and Eastern Europe, so Hungary as well, have significantly different informal institutions and partly different formal institutions in comparison to the Anglo-Saxon and the Western European countries, therefore the imitation of elsewhere successful NPM reforms, independent of all other circumstances, will be unsuccessful.

**Our answer:** Based on the cluster of institutions characteristic of Hungary, we can render it probable that the implementation of the reforms belonging to the NPM movement will be unsuccessful and the implemented reforms will not be sustainable in the long-run. Hungary can be characterized by such informal institutions, which are conflicting with the values of the NPM movement. Based on the statistical analysis of the data of the EVS from 1999, the following picture develops about the informal institutions of the Hungarian society: the country can be characterized by a medium level of trust and the majority of the member of society is dissatisfied with their lives. Among the Central and Eastern European countries included in the analysis, Hungarians have the least confidence in the markets, and the most support for bureaucratic coordination. This is understandable in light of the fact that the majority of the population feels that they do not control their lives; rather it is external factors that influence its course. Hungarians – based on the analysis – are highly intolerant, are rather uncertainty avoiders, and can be characterized by strongly conservative attitudes. Also, their relationships are characterized by high power distance.

Based on this we can claim that the approach of the NPM movement is foreign to the traditions of the Hungarian society, significantly differs from the norms and traditions accepted by the members of society. Because of the social norms and culture, the Hungarian public administration most likely will not be able to accept the reform concepts suggested by the NPM movement, either during their implementation or during their operations they will fall through. It is conceivable that instruments belonging to certain NPM movements will survive in the longer run, but they will be distorted and they will adjust to the informal institutions of Hungary, and cannot be characterized by the values of the NPM. Based on the literature we can claim that in these cases these instruments do more harm than good for the public sector of the given country. During the reform of the Hungarian public sector the toolkit of the NPM movement should not be applied or imitated in its entirety, it should be fitted to the Hungarian institutional environment, which could demand such levels of

modifications after which we cannot consider the modified instruments as a part of the NPM movement anymore. Out of the practices of the more developed countries, it worth to examine principally the public sector reforms of the Southern European countries, since the informal institutions of these countries stand the closest to ours, or we have to find our independent way to go. We believe that we should rather choose the later path.

**Based on the above we accept our ninth hypothesis.**

## 5. Main findings and summary

In our work we wanted to find the answer to the question: what factors influence the successful implementation of the reforms belonging to the new public management movement. According to our assumption, the cluster of institutions that defines social interactions, in other words informal and formal institutions influence the most the implementation of the NPM reforms.

In the introduction of the dissertation we described our approach and that why we consider the topic analyzed by us as relevant. In addition, in a separate chapter we discussed the research questions and the hypotheses of the study.

In the next chapter of the dissertation, the NPM movement was introduced in details, its approach, its foundations in economic theory, the instruments belonging to the movement and the criticisms levelled at it. We captured the objectives of the NPM based on public choice theory, and then we operationalized them. Writing up the chapter was preceded by a comprehensive and thorough literature review, so we built on the most important domestic and international scientific publications dealing with the movement.

Following the introduction of the movement, we described the theoretical framework and methodology by which we wish to find answer to our research questions. Our model, consisting of all together four explanatory blocks, relies on the findings of the new institutional school of economics, the theoretical framework which was presented by the description of the literature. During our analysis, we focused on the first two blocks of our model, on informal and on formal institutions, because we can provide answers to our research questions based on these as well.

In order to capture the institutional framework by the appropriate variables, the notion of institution was described in details, also covering the relationship between informal and formal institutions. In this part the results of the relevant international and domestic publications were introduced. When characterizing the informal institutional factors, the

notion of culture was defined based on the works of Hofstede and Ingelhart. The dependent variable of our model is the likelihood of the successful implementation of the NPM movement, so we had to operationalize the success of the NPM reforms. Thus, we developed four success indicators: the literature based ten and five item success indicator, the citizens' interest indicator and the politicians' interest indicator. We developed the citizens' interest indicator and the politicians' interest indicator based on the logic laid out in the chapter describing the objectives of the NPM. The theoretical foundation of these indicators is formed by the public choice theory. We described in details all three indicators, and we introduced those studies, which also attempted to capture the success of the NPM. During the introduction of our model we described Pollitt – Bouckaert's [2000] model and we also referred to other models, which analyzed the workings of the NPM reforms and their social embeddedness.

After this, our hypotheses were tested through the utilization of our model and through the application of statistical tools. We developed path analysis models, which are in reality a series of linear regression calculations. By the help of these statistical methods we received answer to our research questions and we could test our hypotheses.

*The most important yield of the study is that it proved through statistical analyses that informal institutions, in other words norms, traditions, habits, beliefs and social culture that are followed by the members of society, play a decisive role in deciding whether the reforms related to the new public management movement can be successfully introduced in a given country or not.* If the informal institutions of a country differ from the approach of the NPM movement, then the low probability of the successful implementation should prompt professional practitioners to fit the reforms to be introduced to the informal institutional facilities of the country. The practical relevance of this statement is significant: it can even influence the aid policy of the European Union. If the culture or traditions of a new member state differ from the cultures of the leading countries of the EU, then the European Union takes up a huge risk, if it encourages / forces the new member states to implement such reforms that do not fit the informal institutions of the given countries. In recent years the European Union has spent significant amounts on the support of the reforms in the new member states, a decisive part of which can be linked to the NPM movement. Based on the current study we can claim that these reforms will be unsuccessful with high probability, if during their implementation they do not sufficiently take into consideration the informal institutional environment characteristic of the given country. In most cases the result is squandered billions, or the development of non-sustainable systems, or even worse, distorted

reforms causing effects contrary to the objectives. At the beginning of our dissertation we alluded to some case studies, which analyzed the introduction of the NPM in Africa and Asia and they pointed out the seriously negative effects of the reforms belonging to the NPM movement. These cases are “trivial” in the sense that in the instances of non-democratic systems the toolkit of the NPM movement works in a dysfunctional manner. *Based on the current study we can claim that even under democratic and market economic conditions the success of the NPM reforms cannot be guaranteed.*

We can claim based on the results of the study that the possible introduction of the NPM reforms depends decisively on the informal institutions of society and to a smaller extent on its formal institutions (the necessary condition of success), while the magnitude of the success of the already implemented reforms is determined also by the culture of the public administration, and other factors not examined (3. and 4. blocks of our model) in the study (sufficient condition).

*We consider the modelling and the description of the differences between the influences of formal and informal institutions on the NPM reforms as an important result.* During our analysis it emerged that the possibility of the implementation of the NPM reforms depends on informal institutions, which change slowly and which are givens for politicians and for business people at a given point in time. The NPM movement during the past thirty years can be characterized as a wave of fashion, which was followed by politicians in order to maximize votes. Let us assume that a politician, say that the country’s minister of economy, intuitively realizes that the reforms belonging to the NPM movement and demanded by the member of society, or by a part of it (for instance the scientific elite), or even by an external organization (EU, IMF, etc.) do not fit the country’s culture. In this case, he or she keeps public interests in mind, if he or she does not embark on such reform that is doomed to failure with great probability, so instead he or she handles the pressure laid on him or her rhetorically. Let us not forget that explaining why he or she does not support the implementation of a reform, which is successful in another country, is a quite difficult and dangerous political task. According to Pollitt, the NPM movement is in a great part the series of such kind of “verbal reforms” (Pollitt [2007], p. 14.), which he calls discursive convergence. This could seem as an act of compensation, but based on the results of the dissertation it is conceivable that in the decisive majority of the cases politicians act correctly, when they do not introduce a given NPM reform. *Based on our results, the discursive convergence can be interpreted as a rational and effective defence mechanism.*

*Our model also points out that those cultural attributes, which are labelled by Inglehart [1999] as postmodern, could play a dominant role in the success of the NPM reforms. This is by all means thought-provoking, when we decide on whether to recommend or not the implementation of the reforms related to the NPM movement in the countries of Central and Eastern Europe, where the societies of these countries cannot be characterized by postmodern attributes yet. By reviewing the results of the study, we can claim that between the informal institutions of the countries of Central and Eastern Europe and the countries successfully implementing NPM reforms there exists such a huge gap that most likely these countries would not be able to adapt, in other words to tailor the NPM reforms to their own institutional environments. The examples that so far have been achieved also attest this, let us think of the Slovakian and Czech practices (Nemec, J. –Merickova, B. – Ochrana, F. [2008]), (Nemec [2010]), or even the introduction and realization of the Hungarian TÉR system. Based on our study, the reasons behind the failures should be found between the differences in the approach and value system necessary to the success of the NPM reforms and the informal institutional systems of the Central and Eastern European countries.*

*Our dissertation pointed out that the role played by formal institutions in the successful implementation of the NPM reforms is small. This is proved by that the values of the principle components of informal institutions are the highest in the case of the Scandinavian countries, yet these countries were able to successfully adapt the reforms of the NPM movement. The root of the difference between the Anglo-Saxon and the Scandinavian reforms is worth to be analyzed further, since according to our assumption the differences between the informal institutions stand behind this as well (think of the description in the case of 1. model version).*

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