


# Economics, ideas or institutions? Agencification through government-owned enterprises in illiberal contexts: The case of Hungary

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## Abstract

Corporate state agencies (CSAs) are government/state-owned enterprises (GOEs) that perform public tasks. The main objective of this article is to better understand the drivers of governments' changing reliance on CSAs in performing public tasks. We pursue this ambition in a particular context: one characterized by the illiberal transformation of political and state institutions. Based on a review of the applicable but thus far largely disconnected streams of research we proposed and subsequently tested several hypotheses using a unique data set of Hungarian corporate state agencies that existed between 1995 and 2014. The empirical analysis revealed, firstly, that in line with theories rooted in mainstream economics, economic factors do affect governments' reliance on this type of agencies (albeit to a limited extent). Secondly, we conclude that organizational myths such as the "myth of central control" of Viktor Orbán's governments explain a large proportion of changes in our outcome of interest. However, notably, we found no direct empirical support for either the effect of illiberal transformation of government or administrative reform doctrines.

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## Keywords

Corporate state agencies, agencification, government-owned enterprises, Hungary, myth of central control, illiberalism

## Introduction

Governments rely on various kinds of organizations to perform public tasks. The term ‘agency’ refers to at least partially autonomous organizations that are ‘part of the public domain, perform public tasks, and are usually funded by public means’ (James and Van Thiel, 2011: 209). GOEs are, in contrast to the more common types of agencies that are governed by public law, run by the central government (for a typology of agencies, see James and Van Thiel, 2011). Our research targets one specific, thus far only scarcely researched, subclass of GOEs: ‘corporate state agencies’ (CSAs), as we coin them, are positioned at the intersection of the two aforementioned sets of government organizations. That is, they are agencies operating in GOE form.

The theoretical ambition of this study is to identify and test theories that explain the dynamics of CSAs, that is, governments’ changing reliance on this particular organizational form in the context of a broad-scope illiberal transformation of the political system. As CSAs are, by definition, both agencies and GOEs our research is located at the intersection of three – thus far largely disconnected – streams of scholarship. The first body of scholarship is usually cultivated by scholars of (corporate) economics and management. It intends to characterize and explain the existence of GOEs, their patterns and dynamics, as well as the driving forces of their proliferation (for an overview, see Bruton et al., 2015). The second body of scholarship strives to describe and explain the scarcity or proliferation of different types of agencies (Overman and Van Thiel, 2015; Verhoest et al., 2021). The key questions in this stream of research frequently tackle the patterns in which, and the reasons why agencies are created, eliminated, or changed. Despite the important conceptual and practical connections between these academic discourses, only a few attempts have been made thus far to relate them to one another. The (rather recent) intersections of the former two streams have focused primarily on conceptualizing public mission in relation to GOEs (Sorrentino, 2020) and on the effectiveness of municipally owned corporate agencies (Pérez-López et al., 2015; Voorn et al., 2017, 2020).

Attempts to formulate and test theories explaining governments’ changing reliance on CSAs have been minimal. Bernier et al.’s (2022) recent article on Canadian government corporations (referring to what we call CSAs) constitutes an important exception in this regard. However, their focus is specifically on corporatization, which – as we will argue – is only one among the many pathways through which reliance on CSAs may be affected.

Unlike much of the (modest) literature related to the proliferation of CSAs, we set out to study the above phenomena in a non-Western context characterized by processes of illiberal transformation of the political and administrative system. Scholarship focusing on how emerging illiberal trends in governance shape (and are, possibly and partly, being

shaped by) public sector organizations, and central government apparatuses, in particular, is nascent (for a significant exception see [Bauer et al., 2021](#)).

In particular, there have been, thus far, no systematic attempts at conceptualizing and empirically examining the impact of illiberal reforms on agencies. The above gaps constitute the primary justification of this study and define its primary theoretical ambition. The empirical focus of this study is post-communist Hungary. The temporal scope of the empirical investigation is from 1995 to 2014. These choices are justified by two considerations.

Firstly, the theories that can potentially explain changes in CSA proliferation originate in stable Western liberal-democratic contexts. The patterns, trends and effects of various public management reform trends and instruments, including those of agencification, have been subject to systematic investigations in diverse contexts (including the CEE region; see [Dan and Pollitt \(2015\)](#) and [Dan \(2014\)](#)). This stream of literature has, however, so far been reluctant to test theories explaining agencification (in particular, the proliferation of CSAs), let alone to propose new ones offering larger explanatory power.

Secondly, the decline of (liberal) democratic governance in many political systems is a process that has recently drawn increasing academic attention ([Lührmann and Lindberg, 2019](#)). This growing interest is at least partly attributable to the fact that the ‘third wave of autocratization’ (*ibid.*), especially since the mid-2010s, has not only affected new democracies and (less established) autocracies but also some well-established, fully-fledged democracies. Here, however, Hungary stands out as an extreme ([Gerring, 2017](#)) and ideal-typical ([LeCompte et al., 1993](#)) case of democratic recession. Indeed, Hungary is the earliest and most consolidated case of illiberal transformation among the EU Member States, and its democratic ‘decline has been the most precipitous ever tracked in Nations in Transit ([Freedom House, 2020: 2](#)). Recent public discourse regards Hungary’s illiberal transformation even as a possible model of a possible future US illiberal turn ([Edsall, 2022](#)).

Hence, our research sheds light on the applicability of theories mostly rooted in Western liberal-democratic settings in contexts characterized by present or possible future illiberal transformations. In addition to this theoretical justification, the scarcity of systematic large-scale empirical research on CSAs in Hungary, as well as in other post-transition countries, provides another justification for the empirical focus we chose.

The main research question is formulated as follows:

“Which factors drive CSA dynamics in post-communist Hungary?”

The remainder of the article is organized in the following manner. The article begins by briefly delineating the three streams of literature mentioned above, with a special view on whether and how they are able to explain CSA dynamics. Then, based on the preceding theoretical discussion as well as specific contextual factors, we propose four hypotheses. Next, we describe the data sources and the analytical approach we apply and present the findings of the empirical analysis. Finally, we conclude the research and discuss its findings and limitations.

## Theoretical and conceptual framework

### *Insights from the GOE literature – economics-based explanations*

Economic thought regards GOEs as a particular organizational form that governments may utilize to correct market failures. As standard economics suggests (Gruber, 2011; Stiglitz, 2000), governments may establish GOEs to increase welfare and ensure the provision of goods and services in case there is no other efficient, market-friendly solution to market failures. GOEs may also be used as a means of implementing economic policy such as the provision of specific goods and services and supporting national economic and strategic interests and social objectives (IMF, 2020; OECD, 2021). Furthermore, governments may prefer GOEs over public sector institutions because corporate entities are assumed to be more efficient than public ones (Bernier et al., 2022; Grossi and Reichard, 2008).

Market failures and long-term policy objectives underlying economic explanations are, by their very nature, mostly stable. Therefore, these explanations imply a large extent of stability in CSA dynamics. It is only during the relatively short periods of major economic upheavals and consequent fiscal pressures that these mechanisms can be expected to lead to significant changes in CSA dynamics. However, crises may trigger distinctly diverse impact mechanisms and outcomes on CSA dynamics. As Bernier et al. (2022) argue, potential implications depend largely on specific contextual factors – we will come back to this point in the next section.

### *Ideational forces: Insights from the agencification literature*

There is a broad range of theories that explain agencification (Pollitt et al., 2005; Verhoest et al., 2021; Waluyo, 2021). Most of these theories, however, explain the proliferation of agencies as such, rather than explaining why one particular form of agencies, like CSAs, is preferred (or not) over others. In the following, we restrict ourselves to theoretical perspectives relevant specifically to CSA dynamics.

These perspectives are built on what is called the ‘logic of appropriateness’ in neo-institutional thinking (Powell and DiMaggio, 1991), whereby actors and their actions are usually not guided by rationally calculated plans that are elaborated based on their expected consequences. Rather, they are guided by the normative and cognitive frameworks created and maintained by the institutional context and orientating actors’ conception of what is and what is not (normatively) desirable, appropriate, and legitimate as well as what is or is not (cognitively) conceivable, feasible, and reasonable.

Such ideational forces (Pollitt and Bouckaert, 2011) may be highly relevant in the context of explaining the reliance of governments on CSAs (Bernier et al., 2022). In particular, political-organizational myths and administrative reform doctrines may have a significant explanatory power here. According to the classic conceptualization, organizational myths are rationalized institutional structures that are constantly reinforced by routine organizational ceremonies (Meyer and Rowan, 1977). They frequently trigger organizational isomorphism in the form of administrative fashions or fads (Powell and

DiMaggio, 1991). Certain versions of this theory appear particularly justified when researching consecutive waves of often highly convergent public sector restructurings that sweep across countries with markedly different politico-administrative, economic, and cultural characteristics (Christensen and Læg Reid, 2007).

While some ideational forces refer to a relatively narrow field of organizational practices, others extend to a much broader field encompassing the entire government and its role in society: most of all, administrative reform doctrines (occasionally termed public governance paradigms). We use the term to refer to ‘a relatively coherent and comprehensive set of norms and ideas about how to govern, organize and lead the public sector’ (Torfing et al., 2020: 9). The main difference between political-organizational myths and reform doctrines is that while doctrines are explicit, articulated, and largely global, myths are usually unspoken, possibly even (partly) unconscious, and idiosyncratic to a given politico-administrative context.

Recent academic scholarship has identified or put forward different administrative reform doctrines. A clear departure point was marked by the principles of new public management (NPM), which placed agencification on public administration reform agendas throughout the world (James and Van Thiel, 2011; Pollitt et al., 2005). However, in the 2000s, other approaches surfaced—occasionally overlapping, occasionally oppositional to a greater or lesser extent. Particularly influential among these approaches were the neo-Weberian state, new public governance, joined-up governance, and whole-of-government (Christensen and Læg Reid, 2007; Drechsler and Kattel, 2009; Osborne, 2006, 2010; Pollitt and Bouckaert, 2011). In a similar vein, from a broader perspective, Alami et al. (2021) contend that ‘a gradual yet fundamental reorientation of official agendas and discourses about the state’ is underway, ‘which now embrace a fuller role of the state in development, including as promoter, supervisor, and owner of capital’ (p. 1313). These doctrines have different implications with regard to CSA dynamics (we return to this in the subsequent section).

### *The illiberal transformation of government apparatuses*

Studies on ‘democratic backsliding’, ‘democratic regression’, ‘hybridization’ and ‘illiberal transformation’ (see Lührmann and Lindberg, 2019) are, recently, on a steep rise. The implications of such changes – which we refer to as illiberal – for democratic quality and political institutions, in general, are subject to broad-scope research. However, very limited scholarship can be found regarding the implications of illiberal transformations on government administrations (a notable exception is Bauer et al. (2021); for a focused description of the illiberal transformation of Hungary’s central government bureaucracy see (Hajnal and Boda, 2019). Based on these few contributions, the clearest and most visible feature of bureaucratic transformations seems to be structural centralization and aggregation aiming at the strengthening of top political executives’ control over apparatuses. Whereas centralizing tendencies have been found characteristic of different earlier NPM reforms, too (Halligan, 2006), illiberal reforms stand out in terms of their scope (intra- and inter-organizational, formal and informal) as well as radicality.

## GOEs in Hungary

Much of the available literature on Hungary's—and, in a broader sense, that of post-communist countries—GOE sector does not focus so much on the proliferation of GOEs. Rather, reflecting the key challenges of transforming their Socialist era state-owned economy to a market economy, they concentrate on privatization processes (Brown et al., 2016; Mihályi, 1998) and the economic efficiency of GOEs (Brown et al., 2006).

Similarly, systematic research on drivers of agencification in Hungary is basically absent (for an overview, see Gellén (2012). Most of these are of a qualitative, legal, and/or case-based nature. The situation is similar in other countries of the CEE region (see the individual contributions to Randma-Liiv et al., 2011).

## Further theories

Finally, for the sake of completeness, we discuss two further theories that shed light on factors potentially affecting CSA dynamics but do not lead to hypotheses about CSA dynamics in post-communist Hungary. First, within the realm of public choice theory, Schröter et al. (2019) describe several mechanisms fostering reliance on GOEs (e.g., politicians may seek to set up GOEs to reward loyalists with positions in GOEs, or to facilitate 'bureau-shaping' or 'blame-shifting'). While these mechanisms are plausible, they do not imply (sharp) changes in CSA dynamics.

Second, rooted in the population ecology approach which presumes that organizations – similarly to species – compete for scarce resources, the density dependence thesis holds that high population density decreases survival chances, whereas lower density increases the likelihood of survival (Van Witteloostuijn et al., 2018). The thesis is considered established in organizational theory and has also been applied to non-business organizations, such as federal agencies (ibid.) and interest groups (Gray and Lowery, 2000).

The applicability of the theory, however, is largely limited in the present empirical context. On the one hand, the theory implicitly assumes that the resources for which organizations compete are rather stable. Post-communist Hungary, by contrast, is characterized by various large-scale institutional changes, which implies that the budget funds allocated to CSAs (which constitute the "scarce resources" in the case of public organizations) were also largely unstable. On the other hand, empirical contributions on the density dependence theory mostly seek to explain the survival chances of organizations. Given that CSAs have very rarely been terminated in post-communist Hungary, variation of survival chances would be close to zero, which impedes empirical testing of the hypothesis.

## The research question and hypotheses

In the previous section, we identified the broad, generic causal mechanisms potentially influencing CSA dynamics. In the current section, building on these foundations, we proceed to describe how these theoretical insights may be applicable in the specific

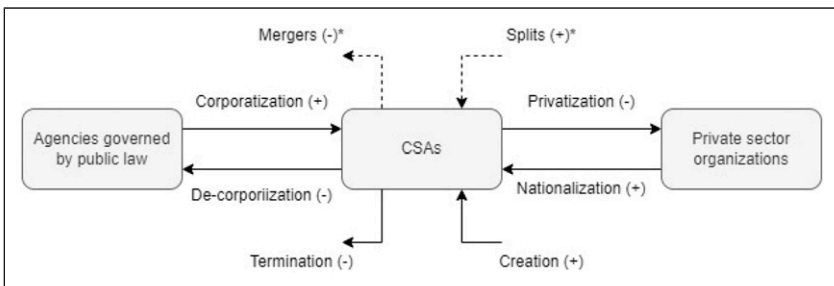
Hungarian empirical context. Identifying, in this way, some specific features of the Hungarian context enables us to develop hypotheses that we can subsequently test based on the – inevitably limited – empirical data underlying the current study.

Before we proceed to outline our hypotheses, we describe our data set focusing on the question of operationalization (more details on data follow in the next section). Our observations are time periods (months) running from 1995 to 2014. The variable operationalizing our key explanandum, “CSA dynamics”, is calculated on the basis of the number of CSAs on the first day of the given month. For reasons explained in the next section we develop our hypotheses, not for the absolute size of the CSA population but its first-order differential (net monthly change) we term “change rate”. While the measure is rather crude, we point out that this approach is largely similar to those applied in some similar studies (for instance, [Bernier et al. \(2022\)](#) utilized the number of public organizations created in a given year as their dependent variable).

At a conceptual level, there may be various pathways, and corresponding government measures, that influence CSA dynamics (i.e., the size of the CSA population). CSAs may come into existence by nationalization, that is, a private company being taken over by the government and transformed into a CSA. Alternatively, a public entity can be transformed into a CSA by corporatization, thereby moving it further from the executive core. Vice versa, the number of CSAs decreases if they are transformed into public law entities, or privatized. Additionally, CSAs may be created anew, or terminated entirely without a successor organization. Finally, the size of the CSA population can be affected by merging or splitting existing CSAs.

The eight types of organizational transformations influencing the size of the CSA population are presented in [Figure 1](#).

Whereas these pathways are, in general, equally plausible, it is not so in the Hungarian context. In their research covering the same period, [Hajnal et al. \(2016\)](#) analyzed Hungarian GOE dynamics. That data set contained only a minimal number of organizational mergers and splits, evenly distributed over the observed period. Therefore, we can safely disregard this type of organizational change as they presumably have an only marginal impact on the size of the CSA population.



**Figure 1.** Transformation types of CSAs (\*as we argued before, mergers and splits were rare in Hungary during the observed period, therefore we do not consider these transformation types in the empirical analysis).

### *Economic factors*

Economics-based mechanisms imply that crises and consequent fiscal pressures trigger changes in CSA dynamics. Hungary has been exposed to one major economic and fiscal crisis in the observed period: the one that began in 2008. While there are several causal mechanisms crises may trigger with regard to CSAs (Bernier et al., 2022), one seems particularly relevant here.

In response to the crisis and the widening fiscal deficit, the incumbent liberal-socialist government implemented a series of harsh measures to improve the fiscal balance of the government (some of which were also preconditions of the IMF bailout package) (Györfy, 2015). Privatizing government assets – including CSAs – ameliorates the fiscal balance, as does the termination of those in need of government subsidies, which leads to the following hypothesis:

(H1): During and in the aftermath of the 2008 financial crisis, the change rate of CSAs decreased.

Note that by a decrease in the change rate we mean, throughout this study, that the number of CSAs increased slower or decreased faster during a given period than otherwise. By an increase in the change rate, we imply that the number of CSAs increased faster or decreased slower during a given period than otherwise.

### *Ideational forces I: Organizational myths*

As argued in the previous section, ideational forces – such as organizational myths and administrative reform doctrines – may trigger changes in CSA dynamics. As for the former, what is sometimes termed the “myth of central control” – that is, “a well-delineated set of beliefs converging around the desirability and advantage of central hierarchical control over public apparatuses” (Kovács and Hajnal, 2015: 17) proved to be a highly relevant explanatory factor in several areas of Hungarian administrative reforms, including (de-)agencification (Hajnal and Vida, 2017; Kovács and Hajnal, 2015). In a broad sense, this myth mirrors the Orbán governments’ ‘strong state’ doctrine (Fodor, 2009). Although largely unspoken, this belief and the resulting endeavour to maximize, almost beyond any limit, the concentration of political and administrative control in the hands of the core executives appears to have dominated the administrative reform process even despite its occasional instrumental irrationality.

Therefore, this hypothesis implies markedly different CSA dynamics for the various tenures of the Orbán governments (from 1998 to 2002 and from 2010 to 2014), compared to the socialist-liberal governments (2002–2010). Orbán’s (centre-right) party, during its opposition years, constantly condemned the socialist-liberal coalition’s tendency to privatize corporate assets and minimize government involvement in the economy and continued to do so in a government position. If accurate, this marked difference in core beliefs would imply an increasingly strong state presence in the CSA field either through waves of nationalization or the creation of new CSAs. In operational terms we would thus



expect an increase in the change rate of CSAs during the first and the second Orbán governments.

(H2): The change rate of CSAs was higher during the Orbán governments than during the Socialist-Liberal governments.

### *Ideational forces II: Administrative reform doctrines*

Hardiman and MacCarthaigh (2017) compare two doctrinal approaches to CSA policy (see also Torfing et al., 2020):

- An NPM-inspired, ‘market-conforming’ (Hardiman and MacCarthaigh, 2017: 4) approach prefers outsourcing and corporatization over public sector provision. For CSAs such a policy implies both privatization and corporatization.
- An opposite approach, possibly termed post-NPM (Drechsler and Kattel, 2009), would imply the preference for the public provision of services. For CSAs this would imply increasing nationalizations, and/or de-corporatization (thus moving agencies closer to the administrative core).

These doctrines however do not have clear implications regarding either an increase or a decrease in CSA dynamics: both may provoke a positive as well as a negative change in the size of the CSA population. Nevertheless, it is reasonable to expect that a doctrinal shift from NPM to post-NPM triggers a change in CSA dynamics.

(H3): During the post-NPM era, the change rate of CSAs was different relative to the preceding NPM era.

### *Illiberal transformation*

As we noted earlier, structural centralization seems to be a fairly general feature of illiberal transformation (Bauer et al., 2021; Hajnal and Boda 2019). For CSAs this implies de-corporatization thus a strengthened oversight by ministries and/or the Cabinet. In the context of our research, specifically, this could be achieved by de-corporatization (turning CSAs into agencies governed by public law), thereby – holding other features constant – decreasing the size of the CSA population.

Accordingly, the fourth hypothesis is formulated in the following manner:

(H4): The change rate of CSAs decreased after the 2010 illiberal turn in Hungary.

We note that the above hypotheses are not mutually exclusive. Rather, they are in a complementary relationship and the extent to which they are fit to explain the outcome in question in a particular empirical context depends on contextual factors (Héritier, 2008: 66).

## Data and method

In line with recent research on CSAs across Europe (James and Van Thiel, 2011; MacCarthaigh, 2011), this research operationalizes CSAs as organizations that satisfy the following criteria:

1. They operate in the legal form of a corporate enterprise.
2. They have the central government (that is, a ministry or an agency supervised by the central government) as majority or sole owner;
3. They serve, at least potentially, a public service (as opposed to purely commercial) function.
4. They have, in the geographical sense of the term, a national or at least regional scope of tasks.

The starting point of the data collection was the registry of the Hungarian National Asset Management, Inc. (hereinafter, NAM), which functioned as the central entity exerting ownership rights on behalf of the central government at the time of the data collection. This data set was supplemented by data obtained from a public corporate database encompassing business organizations and the changes they may have undergone (successions, terminations, etc.) as recorded in the national Business Registry. Because of the chaotic circumstances of the systemic change and the basic flaws of the newly created corporate registry system in the early 1990s, the data achieve an acceptable level of reliability from 1995 onwards; therefore, we excluded the years prior to 1995 from our data set.

Using the resulting novel database, we first calculated a monthly time series of CSA population sizes and then the first-order differential of this variable:

$$\text{DIFF (CSA)}_t = \text{CSA}_t - \text{CSA}_{t-1} \quad (1)$$

where  $\text{CSA}_t$  is the number of CSAs on the first day of month  $t$ . To test the hypotheses, independent sample t-tests were conducted<sup>1</sup> to check whether the average net monthly changes (first-order differentials) differ significantly in different periods, as predicted by the hypotheses. We argue that the application of differentials as a dependent variable (rather than the number of CSAs) allows for utilizing the information that the observations are consecutive and, hence, not independent.

The separate bivariate analyses we chose to perform are justified by the fact that our purpose is not the explanation of CSA dynamics per se, but rather to test whether the independent variables derived from distinct theories affect it. We present the hypotheses, the independent variables (dichotomous dummy variables used as factors), justifications for the cut-off dates, and the dependent variable in Table 1 (below).

We considered a hypothesis congruent with the empirical data if (i) the  $p$ -value of the t-test was no more than 0.05 and (ii) the difference of the group averages was as predicted. The statistical testing was complemented by descriptive statistics and data visualization.

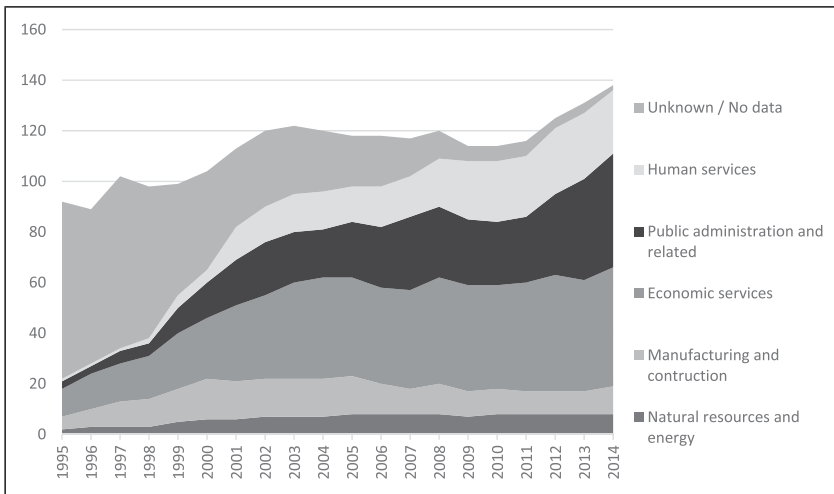
**Table 1.** Summary of the hypotheses and description of the variables.

Hypothesized factor	Hypothesized effect (sign of expected change)	Name of variable	Values	Justification of cut-off points
H1 The 2008 financial crisis	Privatization (-) Termination (-)	H1_crisis	1 between December 2007 and June 2009 0 otherwise 0 otherwise	According to the business cycle data <sup>2</sup> of the National Bureau of Economic Research (NBER) the downturn lasted from December 2007 until Jun 2009
H2 The myth of central control characteristic of the Orbán governments	Nationalization (+) Creation (+)	H2_myth_central	1 from May 1998 to April 2002 and from May 2010 0 otherwise	Orbán was first elected in Apr 1998 for four years and then again in April 2008 and 2012
H3 Doctrinal shift from NPM to post-NPM	Any (sign is unknown, but a change is expected)	H3_admin_doctrines	1 after May 2004 0 otherwise	<b>Drechsler (2005: 19)</b> argues that 'in 2000 NPM was on the defence since empirical findings spoke clearly against it as well', and 'in 2005 NPM was not a viable concept anymore'. With regard to the CEE context, <b>Randma-Liiv and Drechsler (2017)</b> argue that the EU accession period was characterised by post-NPM and even Weberian reestablishment. Based on these insights, we hypothesise that the shift occurred around the time of the EU accession (1 May 2004). We recognize that this is somewhat arbitrary and, thus, we perform a sensitivity analysis with regard to the date by testing breaks 1 year before and after

(continued)

**Table 1.** (continued)

Hypotheses and related (independent) variables					
H4	The illiberal transformation of Hungary	De-corporatization (-)	H4_illib	1 from May 2010 0 otherwise	The illiberal turn, as noted above, began with the inauguration of the second Orbán government
Dependent variables					
Name	Description				
CSA	The number of CSAs in a given month.				
DIFF_CSA (dependent variable used in the statistical analysis)	The net change in the total number of CSAs in a given month compared to the previous month (see Equation (1)).				



**Figure 2.** Sectoral composition of CSAs in Hungary between 1995 and 2014 (source: own data).

## Findings

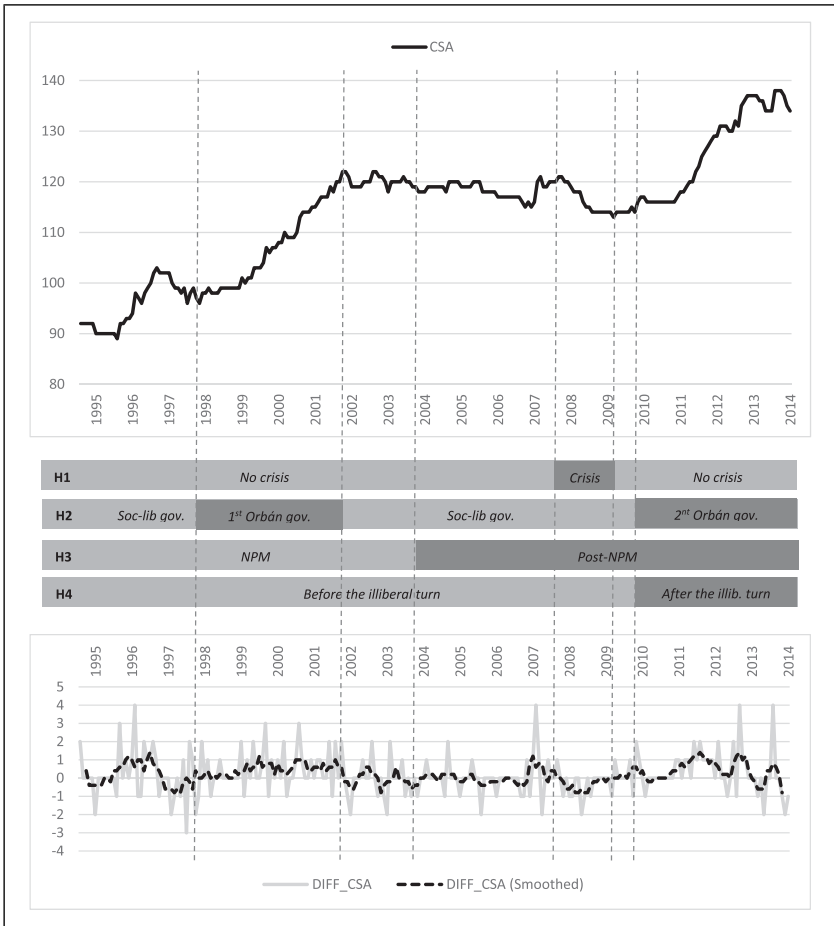
Before discussing the results of the empirical analysis, we briefly present the data on the CSA population and describe how its sectoral composition evolved. Figure 2 plots the longitudinal trend of CSAs in Hungary (1995–2014).

As for the overall number of CSAs, from the early 2000s, one can observe stagnation, or even a slight decrease, in the overall number of CSAs, except for 2009 when the total number slightly sunk. The beginning of the 2010s, however, mark a significant shift in this long-term trend, as the total number of GOEs started to grow sharply. As for the sectoral distribution of CSAs, the share of CSAs involved in economic services and natural resources was quite stable over the observed period. Manufacturing diminished, while human services and public administration activities increased to a significant extent. Importantly, these changes appear surprisingly stable over the examined period, largely unaffected by the political and economic turmoil affecting the CSA landscape in other respects.

Figure 3 presents the trend of variables CSA (the number of CSAs in a given month) and DIFF\_CSA (the first-order differential of CSA) and  $\pm 2$  smoothed average of the latter. Table 2 presents the descriptive statistics of these variables.

Table 3 presents the results of the hypothesis testing for each of the four hypotheses.

Based on the results of the t-test, the empirical pattern revealed by our data is congruent with H1, according to which the change rate of CSAs decreased during the 2008 crisis. The average monthly change in the number of CSAs was  $-0.32$  during the crisis as opposed to  $0.23$  otherwise ( $p = 0.004$ ). In other words, as the upper panel of Figure 2 shows, the number of CSAs decreased at an average rate of 0.32 organizations per month



**Figure 3.** CSA trends in Hungary (1995–2014) (source: own data).

**Table 2.** Descriptive statistics (number of CSAs and change rate of CSAs).

	N	Range	Minimum	Maximum	Mean	Std. Deviation
CSA	234	49	89	138	113.9402	11.89532
DIFF_CSA	234	7	-3	4	0.188034	1.107382

during the crisis, whereas it either grew or stagnated throughout the ‘normal’ times (average growth rate: 0.23 organization per month).

According to H2, the change rate of CSAs increased during the Orbán governments (relative to the socialist-liberal governments). Our empirical findings are congruent with this hypothesis: during the Orbán governments the average CSA change rate was 0.33 as

**Table 3.** Results of the t-tests (source: own data).

	Descriptive statistics					Levene's test for equality of variances					t-test for equality of means				
	N	Mean	Std. Dev	Std. Error	Difference of means	F	Sig.	t	df	Sig. (2-tailed)	F	Sig.	t	df	Sig. (2-tailed)
H1_crisis = 0	215	0.23	0.48	1.128	0.077	2.370	0.125 <sup>a</sup>	3.186	27.966	0.004					
H1_crisis = 1	19	-0.32		0.671	0.154										
H2_myth_central = 0	112	0.04	0.29	1.13	0.107	0.889	0.347 <sup>b</sup>	-2.029	232	0.044					
H2_myth_central = 1	122	0.33		1.071	0.097										
H3_admin_doctrines = 0 (NPM)	112	0.25	0.11	1.182	0.112	4.442	0.036 <sup>a</sup>	0.815	221.679	0.416					
H3_admin_doctrines = 1 (post-NPM)	122	0.13		1.036	0.094										
H4_illib = 0	183	0.13	0.26	1.081	0.08	1.349	0.247 <sup>b</sup>	-1.492	232	0.137					
H4_illib = 1	51	0.39		1.185	0.166										

<sup>a</sup>Equality of variances not assumed.

<sup>b</sup>Equality of variances assumed.

opposed to 0.04 otherwise ( $p = 0.044$ ). In other words, while the CSA population was practically constant or even declining under the socialist-liberal governments, their number grew by 0.33 organizations per month on average during the incumbency of the first and second Orbán governments.

This finding is peculiar if one considers that the first and second Orbán governments operated under distinctly different conditions. On the one hand, the period 1998–2002 was characterized by economic prosperity and the prospect of the country's imminent accession to the EU. Fulfilling all accession criteria and aligning domestic policies with European policies and practices was a clear commitment of consecutive governments of the time (Ferge and Juhász, 2004). On the other hand, the years after 2010 were characterized by severe measures to re-balance fiscal and economic conditions, and a clear and strong conflict between the Orbán government and EU policies as well as the priorities and recommendations of international financial institutions regarding crisis management (Grabel, 2011). Despite the drastically different fiscal, economic, and international environment (and the decade that passed between the two government periods), the first and the second Orbán government's stance towards CSAs remained the same, at least according to the crude and quantitative measurement applied in this study. The confirmation of this hypothesis affirms the idea that policies—in this particular case, CSA policy—are not only shaped by economic factors but also, and possibly in a much more powerful manner, by political-organizational myths, rooted in the deep core beliefs of boundedly rational actors.

H3 states that the change rate of CSAs was different during the post-NPM era than during the NPM era. The results of the analysis do not support this hypothesis ( $p = 0-416$ ). As we discussed previously, the change date is somewhat arbitrary; therefore, we implemented a sensitivity analysis by hypothesising a break 1 year before and 1 year after 1 May 2004. In both cases, the change was insignificant ( $p = 0.146$  and  $p = 0.431$ , respectively), too.

Finally, H4 predicts that after 2010 (that is, after the beginning of the illiberal turn in Hungary), the change rate of CSAs decreased (due to de-corporatization). Our empirical data does not support this hypothesis: there is no significant difference between the two time periods ( $p = 0.137$ ). Moreover, the average change is higher after the illiberal turn than before (0.39 and 0.13, respectively). To defend H3 one could argue that – possibly – the illiberal turn did induce a wave of de-corporatization, but it was outweighed by a concurrent wave of nationalizations and the creation of new CSAs (see H2 above). Although we cannot exclude this option, we argue that given that CSA trends during the first and the second Orbán governments are relatively similar (see the upper panel of Figure 2), this scenario is rather unlikely.

## Discussion

The purpose of this research was to explore CSA dynamics—that is, governments' changing reliance on CSAs—in post-transition Hungary, and to examine the factors that explain it. To this end, we formulated and tested four hypotheses derived from three streams of applicable scholarship —economics of the public sector, agencification



research, and research on illiberalism— and taking into account the specific contextual features of the organizational field in which the objects of study are located. The empirical context of post-communist Hungary enabled us to (i) explore the extent to which different theories, typically elaborated in established Western/liberal democracies, are applicable in other contexts characterized by illiberal transformation, and (ii) to contribute to a better understanding of how the emerging phenomenon of illiberalism affects the CSA phenomenon. The following key messages emerge from the findings.

The empirical findings underpin the (growing) significance of CSAs. Despite there being a few shorter periods of stagnation or decrease, the number of CSAs (understood here as a proxy for governments' reliance on this type of organization) was either increasing or, at least, was not decreasing during most of the observed period. During the entire period observed—that is, from January 1995 to July 2014—the total number of CSAs grew from 92 to 134. In sharp contrast to this trend, research on this organizational arrangement is largely scarce, which underpins the need for further research in this vein.

The explanatory power of theories rooted in economic rationality in the Hungarian context has proven to be present. It is nevertheless important to note that the crisis unfolding around 2008 was an unparalleled economic downturn in contemporary history that shook all kinds of organizations, both in the private and public spheres; therefore, it is not surprising that CSAs were also affected to a certain extent.

Ideational, political and institutional factors closely associated with different Orbán governments reveal a mixed and interesting pattern. On the one hand, the impact of the 2010 illiberal turn on CSA dynamics was not confirmed by the empirical analysis. This finding is quite unexpected, given the fact that illiberal governments operating in diverse contexts are almost always keen on implementing sweeping structural – and, in particular, centralization – measures.

The most visible and powerful factor shaping the CSA landscape has proven to be a – largely unspoken, myth-type – set of beliefs in the superiority and desirability of central, political control. This core belief seems to be associated with both the first and the second Orbán governments (from 1998 to 2002 and from 2010 to 2014, respectively). Whereas these two governments operated under strikingly different economic and political conditions, still they pursued a practically identical CSA policy characterized by an increasing reliance on CSA-type organizations through nationalizations and the creation of new CSAs. This policy is in line with both the stated philosophy of governments (centred on a “strong” and “respectable” state) and with findings established in markedly different realms of administrative policy, such as the Orbán government's “showcase project” of administrative one-stop-shops (Kovács and Hajnal, 2017) or its highly idiosyncratic decentralization (actually: re-centralization) policy (Hajnal and Rosta, 2019).

From a broader perspective, these findings suggest that “global” (administrative) fashions and fads – which, on closer scrutiny, frequently turn out to be limited to the Western world or, even more, to the “Anglosphere” (Pollitt, 2015) – are, in fact, much less influential in other contexts than it is frequently assumed. Whereas similar findings have already been established for a broad range of administrative (reform) phenomena it is, in our view, useful to see that CSA dynamics is yet another field of administrative policy where “hard” factors such as economic pressures and local belief systems are decisive.

## Conclusion and implications

Before concluding our study, it is necessary to reflect to its (inevitably) narrow empirical focus and methodological/data limitations, and the extent and ways in which these allow for making broader inferences, with a particular view on guiding future research in the area. We highlight three features of the study and its findings.

Firstly, the study focussed on one particular – and strongly under-researched – area of the structural landscape of central government organizations: CSAs. Studies of central government structural dynamics – to the remarkably limited extent, to which they exist in non-Western (and, more specifically, post-Communist and illiberal) contexts – already suggested that factors of technical and operational rationality are usually superseded by frequently tacit political and ideological ones (Hajnal 2012). In this respect, this study supports and broadens the applicability of pre-existing theoretical insights into factors shaping central government machinery in such contexts. Further research is needed nevertheless to find out the limits of the, thus far, almost-exclusive explanatory power of such “political explanations”.

Secondly, the empirical analysis covers only approximately 20 years of CSA dynamics in a single country, Hungary. On the one hand, therefore, the generalizability of the findings is, generally, limited. Indeed, the Hungarian (and, more broadly, the CEE region’s) institutional setting (characterized by a communist heritage, weakness of democratic traditions, as well as—in certain cases—the more recent phenomenon of significant democratic backlashes) is largely different from many Western contexts. On the other hand, nevertheless, our finding regarding the minimal effect of illiberal transformation on CSA dynamics may be generalizable to a larger extent. Since Hungary presents an extreme/ideal-type case of illiberal turn one may argue that other, (necessarily) weaker instances of illiberal transformation are even less likely to trigger significant implications for governments’ CSA policy. Such comparative research offers another promising direction for future research in the area.

Thirdly and finally, the ambition of our inferential statistical analysis was less than the complex modelling and multi-factor explanation of a phenomenon (in our case, CSA dynamics), a typical ambition for many explanatory analyses. Should a more complete dataset with a range of additional organizational and country-level variables be available, future research may pursue such explanatory ambition.

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## Notes

1. Levene's test for equality of variances were conducted for each hypothesis. If the  $p$ -value was more than 0.05, then a t-test was applied where equal variances are assumed. If the  $p$ -value was equal to, or less than 0.05, equal variances were not assumed.
2. <https://www.nber.org/research/data/us-business-cycle-expansions-and-contractions>

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