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From Decentralization to Re-Centralization: Tendencies of Regional Policy and Inequalities in Central and Eastern Europe

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Abstract

The issue of decentralization in the postsocialist countries of Central and Eastern Europe (CEE) has faded from the research agenda since the democratic transition and EU accession. Conventionally presented as a global policy goal for supporting local democracy, improved governance and reduced regional inequalities, decentralization has been met with uncertain results in less developed regions. EU Regional Policy, initially supporting decentralization and related regionalization processes in CEE, has met challenges in lagging regions facing institutional legacies and capacity limitations. Perceived failures of decentralization point to a trend of re-centralization of regional policy in CEE countries, on the part of both national and EU levels, potentially exacerbating the trend of increasing regional polarization within countries. The cases of Estonia and Hungary illustrate these tendencies, drawing attention to national responses and the need for a continued dialogue on institutional development and EU Regional Policy reform in order to better target regional inequalities.

Keywords: decentralization; governance; regional policy; institutions; Central and Eastern Europe

1. Introduction

The issues of decentralization and regionalization once occupied a high-profile position in the discourses surrounding institutional reform in the postsocialist countries of Central and Eastern Europe (CEE) as they underwent political and economic transition and prepared to enter the European Union. Decentralization programmes, informed by a literature on the universal indications of decentralization applied from Western models, satisfied initial requirements of local autonomy in many cases (Illner and Andrle 1994). Nevertheless, over time and through the development of diverse institutional arrangements in CEE (Jüptner et al. 2014; Swianiewicz 2014), as well as through its failed application in low- and middle-income countries

around the world (Andrews and De Vries 2007; Litvack et al. 1998), the decentralization literature has become uncertain regarding the reduction of regional inequalities. Over a similar time period, CEE countries participating in EU Regional Policy have seen increasing regional polarization within the countries, in spite of general convergence between countries themselves (European Commission 2014; Kühn 2015; Monastiriotis 2014), which raises new questions about the lessons of decentralization in light of recent institutional transformations.

By tracing the institutional transformations of CEE countries and their work towards common EU goals such as territorial cohesion, the comparative study of CEE countries can make a fresh contribution to the decentralization literature, reflecting on the development and complexity of various national institutional contexts in the postsocialist period. This paper compares decentralization and regionalization processes in Estonia and Hungary by focusing on national institutions related to EU Regional Policy* and how institutional arrangements relate to policy objectives, namely the reduction of regional inequalities. Drawing on fieldwork consisting of in-depth interviews with regional policy experts, the research aims to reinvigorate the decentralization debate by elaborating arguments from the perspective of the peripheral countries of CEE and distinguishing those arguments from the sometimes inapplicable and non-transferable "best practices" based mainly on the experiences of either highly developed or developing countries.

The paper proceeds with an overview of the decentralization literature as it pertains, first, to governance and development in general and, second, to regional inequalities. Following that, the processes of decentralization, and regionalization as a form thereof, are put into the context of EU Regional Policy and the particular situation of the postsocialist CEE member states. The cases of Estonia and Hungary are thereafter presented in a comparative fashion, outlining the institutional developments surrounding their national regional policy and highlighting the potential impacts of sequential reforms on regional polarization. The paper concludes by drawing implications for the future of EU Regional Policy.

2. Decentralization as a policy goal

2.1 The decentralization toolkit: An ideal approach to governance and development?

Defined as the "transfer or delegation of legal and political authority to plan, make decisions and manage public functions from the central government and its agencies" to lower-level "functional authorities, autonomous local governments, or non-governmental organizations" (Rondinelli 1981, 137), decentralization has been promoted by international governmental organizations and policy think-tanks with the aim of improving issues of governance such as democracy, public participation, efficiency, transparency and anti-corruption, as well as issues of economic development. Various dimensions of decentralization have been specified in the literature,

* In this paper, "EU Regional Policy" refers collectively to Cohesion Policy and related supranational EU strategies and programmes, while the lower-case "regional policy" refers to its national iterations and/or implementations.

such as fiscal, administrative and political decentralization, and decentralization can take the forms of deconcentration, delegation and devolution in the public realm, which increase in their degrees of decentralization, as well as partnerships and privatization (Agarwala et al. 1983; Rondinelli 1981). More practically, decentralization is commonly revealed by the downloading of public functions to lower levels of government and, ideologically, is associated with various turns in governance in the late twentieth century, such as the neoliberalization of the state and New Public Management.

Early literature on the subject tends to offer a broader consideration of the indications and implications of decentralization than is often expressed in more recent interpretations. Prescriptive in nature, decentralization has been viewed as an ideological principle and justifiable political objective in itself and has been linked to increased skills and development, knowledge of local conditions, efficient and equitable allocation of resources, and even national unity and solidarity (Rondinelli et al. 1983). It has been widely prescribed in the 1980s and 1990s for promoting democratic governance and economic adjustment in former authoritarian regimes, wherein lessons have pointed to the importance of institutional capacity and to the relationship between decentralization and economic development amidst globalization (Cheema and Rondinelli 2007). Others have stressed issues of legitimacy, such as political and administrative accountability and capacity, when considering decentralization in developing countries. Amidst the relatively active period of decentralization programmes, Litvack et al. (1998) found that political accountability can be a necessary requirement before decentralization is undertaken, while capacity can be developed incrementally and opportunistically through asymmetric decentralization. Moreover, they specified a range of institutional weaknesses that must often be addressed, including: democratic processes; legal, regulatory, information and financial systems; and markets.

Interest in decentralization has fluctuated from a high point in Western Europe in the 1980s and 1990s, as attempts to implement decentralization programmes across the developing world failed to produce the intended results. In this way, the historic roll-out of decentralization programmes aimed at increasing development and legitimacy have yielded lessons pertaining to procedural issues in implementation, while less is certain about how decentralization should look. Indeed, since the high point, some Western countries serving as models have initiated new forms of centralization (for example Denmark; Andersen 2008), shedding doubt on the normativity of decentralization as a principle in itself. Rather, higher but related principles of democracy, transparency and economic governance now dominating current EU discourses – and which decentralization had been deemed to support – may take more direct precedence in the future.

In addition to the governance aspects of decentralization, economic aspects are also touted through dominant discourses of regional development such as endogenous-growth theory and strategies such as place-based development in the European Union. Through the "Lisbonization" of EU Regional Policy, the territorial development strategy of the bloc has turned from socio-economic harmonization towards economic competitiveness and growth (Avdikos and Chardas 2016; Mendez 2011). Through this re-orientation of Regional Policy, Europe's lagging productivity has

been consistently identified as the main issue to tackle in its regional development programme (Barca 2009; European Commission 2004, 2010, 2014; Farole et al. 2011; Sapir et al. 2003). Scholars have noted, however, that the influential Barca Report cementing the place-based development strategy also discouraged government intervention (Avdikos and Chardas 2016), a paradox in what has traditionally been a redistributive government programme. Thus, issues of centralization and decentralization continue to play out strongly in the EU Regional Policy discourse.

2.2 Decentralization and regional inequalities

Taking regional development and inequalities as a point of departure, the issue of decentralization can be examined in a narrowed context. Theories surrounding decentralization highlight the socio-political and economic advantages of increased autonomy and efficiency of local governments, leading to better service provision for citizens, under the assumption of sufficient institutional capacities. In order to draw conclusions about decentralization in various institutional contexts, the different approaches to decentralization – from economic, concerned with the level of economic development, to political, concerned with forms of state (e.g. federal and unitary) and governance – should be considered together across countries of varying levels of development.

Despite the various potential approaches to decentralization studies, the literature largely consists of studies of developed countries that are mostly focused on fiscal decentralization, due to issues of data availability and measurement. For instance, local autonomy has been scarcely considered as an indicator of political decentralization, the majority of studies focusing on the more readily available shares of total government expenditures, thereby providing only a partial view of fiscal decentralization. The lack of reliable regional data from developing countries makes it difficult to investigate these issues widely across countries (Marks et al. 2008). Furthermore, research has suggested that decentralization theories may hold a developed, Western, welfare-country bias and that decentralization has been shown to serve ulterior political purposes in the developing world (Andrews and De Vries 2007).

The segment of the literature focused on fiscal decentralization and regional economic growth, bringing together studies of federalism, public finance and public administration from the national to local levels, has produced mixed results. On the topic of fiscal federalism, associations were drawn between country size, income per capita and fiscal decentralization (Oates 1972). The economic case for fiscal decentralization is based on "the presumed responsiveness of local governments to the welfare of their respective constituencies" (Oates 1993, 240), invoking the public-choice theory in which the local government is viewed as the provider of a unique bundle of public goods and individual citizens select their location according to their preferences (see Tiebout 1956). The responsiveness of local governments would then be conditional upon adequate local revenues and responsible administration, which can both be lacking in developing countries. Other studies in this strain increased the number of significant variables related to decentralization to include taste differentiation and level of democracy (Panizza 1999) as well as federal or unitary constitution (Dziobek et al. 2011).

Theoretical arguments against decentralization, nevertheless, continue to be invoked as explanations for varying results of fiscal decentralization based on individual country characteristics. The basis of these is that the central state is best suited to perform the redistributive function, thereby promoting regional equality and controlling macroeconomic stability (Prud'homme 1995). Moreover, decentralization can present challenges related to insufficient information, corruption, the quality of local bureaucracy, technological change and mobility, and public expenditures, which are more likely to become issues in developing countries (Tanzi 1996). In practice, such dangers of decentralization may often be due to poor design and implementation, since political stability, public-service performance and equity are also amongst the purported benefits of decentralization (World Bank 1999).

In accordance with the above theories, researchers and policymakers became more concerned with the relationship between decentralization and regional inequalities, and a string of empirical studies following both fiscal and political aspects have narrowed in on this area. These different aspects of decentralization will henceforth be addressed jointly. While decentralization is generally found to have a positive effect on regional inequalities in developed countries, it tends to have a negative effect in developing countries. Shankar and Shah (2001) found that fiscal decentralization had a restraining effect on regional inequalities between industrial and developing countries characterized as either federal or unitary states. Their results further challenge the theoretical argument that central states can better perform the redistributive function, noting that unitary states are generally more unequal than federal states, both developing and developed, according to a variety of measures. They took widening regional inequalities as evidence of failed regional development and considered fiscal decentralization to be a political risk, particularly in federal states, driving separation movements of rich and poor regions. Canaleta et al. (2004) associated political decentralization with regional equality in developed countries from 1980 to 1996, while Ezcurra and Pascual (2008) associated fiscal decentralization with regional equality in (developed) EU countries from 1980 to 1999. Others focused on developing countries have shown negative relationships between decentralization and economic growth (Davoodi and Zou 1998) and regional disparities (Rodríguez-Pose and Ezcurra 2010). More recently, Lessmann (2012) found that fiscal and political decentralization could lead to higher regional inequalities in developing countries and lower inequalities in highly developed countries. However, Ezcurra and Rodríguez-Pose (2013) did not find a significant relationship between political decentralization and economic performance in developed countries. Most recently, fiscal decentralization and regional inequalities have been connected to government quality in the most advanced economies (Kyriacou et al. 2017), which offers an alternative approach to capturing the political dimension apart from political decentralization, specifically, and may hold promise in its application beyond the richest countries.

The mixed results coming from these empirical studies are partly due to the complexities of measuring decentralization, which have been thoroughly discussed in the literature (see Panizza 1999; Meloche et al. 2004; Marks et al. 2008; Ezcurra and Rodríguez-Pose 2013). One reason to stress is the difficultly in distinguishing fiscal autonomy from decision-making and implementation autonomy at the sub-

national level; another, the difficulty comparing sub-national units' responsibilities and resources across countries. Due to complexity in describing decentralization, the comparative case study method can provide more deeply contextualized information for CEE countries in question.

Of particular interest to this study, Rodríguez-Pose and Ezcurra (2010) associated GDP per capita and a variable representing CEE/transition countries with increased regional disparities, suggesting that it is important to consider the effects of decentralization on CEE countries separately due to some unique underlying characteristics. Relating to Prud'homme's (1995) warnings, increasing regional disparities and the need to control macroeconomic stability became key foci of CEE countries in the aftermath of the financial crisis. According to Rodríguez-Pose and Ezcurra (2010), decentralization has the ability to disproportionately benefit regions with greater capacities and handicap poorer regions due to lost economies of scale, the lost equalizing function of the central state, lower access to capital, a smaller tax base, and weaker infrastructural and institutional endowments. It becomes apparent, therefore, that certain conditions may be necessary for successful decentralization, such as high-quality institutions, a conclusion repeated by Muštra and Škrabić (2014), and that regional growth dynamics could affect the viability of a decentralization programme and even promote re-centralization in poorer regions. These conclusions are further explored in the cases of Estonia and Hungary to follow.

3. Decentralization, Regionalization and EU Regional Policy in CEE

Amidst the mixed results of decentralization studies presented above, the appropriate level of decentralization in EU Member States remains elusive to policymakers and amounts to what has been termed, "a fantasy of optimal scale" (De Vries 2000, 203). For governance, decentralizing and centralizing tendencies represent a tension between democratic legitimacy and administrative efficiency; for economics, between endogenous development and macroeconomic stability. These political and economic elements are necessarily intertwined and reflected in the literature linking decentralization with economic development. Likewise, regional policy has been defined in terms of potentially conflicting aims of equity and efficiency (Keune 1998). As such, decentralization and regional-policy discourses are linked by core concepts, and the issue of decentralization in institutions of governance is prone to enter into the EU Regional Policy discourse. The relevance of decentralization to CEE countries is not only limited to the early transition period, but is reinforced in the on-going policy- and institution-shaping dynamics between the EU and Member States and between national, regional and local levels of government. To use EU terminology, decentralization is supported by the subsidiarity principle (Dabla-Norris 2006) and is therefore subject to EU-related processes of institutional change. The following section describes decentralization and regionalization as it relates to EU Regional Policy and the institutional transformations that broadly swept through CEE countries as they became oriented towards EU models of regional development.

In the European context, decentralization has been described as a form of territorial rescaling that changes institutionalized forms of social representation and domi-

nation in bounded spaces, calling up changes to institutions and power structures (Perkmann 2007). Meanwhile, regionalization, more specifically, has played a part in the EU strategy to restructure territorial governance (Scherpereel 2010), contributing to new concepts and practices, forms of participation and dimensions of power-sharing (Rizvi and Bertucci 2007). EU Regional Policy has thus been credited for the resulting experimentalist form of multi-level governance in Europe (Mendez 2011). With these developments in mind, decentralization – and regionalization as a re-scaled form thereof – can be interpreted as part of the European integration project. Hereafter, regionalization will be treated as an extension of decentralization processes furthering the aim of transferring authority from central governments. The present state of the decentralization movement, as the result of the political and economic processes unfolding in CEE countries since the systemic transition, may represent a weakness or challenge to European integration and regional polarization.

EU Regional Policy has targeted structurally weak regions through the promotion of territorial cohesion, or "balanced and sustainable spatial development" (European Commission 1999, 8), especially as the policy was reformed to encompass the comparatively underdeveloped regions of CEE. The related funds, including pre-accession funds through programmes such as CADSES (Interreg) and Phare, provided incentives for administrative reforms and mechanisms for CEE countries to learn from their Western neighbours. Such reforms began in these countries around the time of their political and economic transitions towards market democracies, and in some cases beforehand, often under the guidance of international financial institutions in order to work towards Western best practices. EU Member States from CEE came to be amongst the most advanced decentralization reformers of the transition countries (Dabla-Norris 2006). Meanwhile, the resulting territorial administrative and institutional structures varied widely across CEE, which, in accordance with EU accession, was reshaped from country to country in order to benefit from EU Structural and Cohesion Funds.

Decentralization was widely included in the first wave of administrative reforms of the 1990s to re-assert the authority of local governments across CEE (Illner and Andrle 1994). This was driven in part by localism, as a response to the central-planning systems of the socialist period (Illner 1997). In their reorientation towards the European Union, CEE countries saw decentralization as a means of restoring pre-Soviet structures, thus ensuring democracy and supporting a more sustainable local and regional economic development. As local self-government was seen as an antidote to the central state and an expression of European identity (Campbell and Coulson 2006), decentralization was used to support democratic transformation and social and economic development: "[E]verywhere in the region, decentralization was declared by the national governments as one of their legitimate programmatic goals after 1989/1990" (Illner 2000, 395).

Constitutional reforms to empower local governments after the fall of socialism were largely pursued through devolution, leading to the problem of "fragmented local governments … unable to command meaningful resources" (Illner 2000, 396). This resulted in CEE countries having some of the smallest average sizes of municipalities by land area and population in Europe, which can point to a lack of institutional capacity in local administration and complicate regional cooperation. The

fragmentation of municipalities can thus be considered a major obstacle to the effective decentralization of functions including regional policy from the central government (Swianiewicz 2010). CEE local government systems are characterized by a belief in decentralization that identifies with democratization and weak intermediary levels of government (Swianiewicz 2014), even though the functional decentralization varies widely and falls short of other countries such as Germany and the Nordics (Loughlin 2001). As a result of initial decentralization in CEE, a functional gap is often missing at the regional level (with the general exception of Poland), while the autonomy of local governments re-established at the fall of socialism largely prevents further rescaling efforts.

Aside from widespread decentralization, CEE countries also had an impetus to regionalize during the restructuring period of the 1990s and early 2000s as they prepared to enter the EU and become beneficiaries of Regional Policy. This relates to a practical aspect of delivering Regional Policy, the imposition of the NUTS (Nomenclature of Territorial Units for Statistics) system defining various regional levels and, often, new territorial units for the purposes of EU policy. The creation of the NUTS-2 level, in particular, on which eligibility for funding and regional programmes were based, often resulted in new spatial units that had little to no historical basis in CEE countries, challenging existing institutional structures, and building up certain expectations of a future decentralized regional policy following EU accession.

These expectations were, nevertheless, not only based on this practical framework for policy implementation. Prior to CEE accession in 2004, Regional Policy promoted regionalization alongside the politically motivated "Europe of the Regions" strategy that reflected the democratic values associated with decentralization; this characterized the trend of growing European integration and federalization (Loughlin 1996). While regions built up policy-making power and representation in Brussels through the 1980s and 1990s, Structural Fund reforms during this period continually reasserted national over regional control (Sutcliffe 2000). Meanwhile, EU lessons for CEE indicated support for decentralization by pushing for regional development to fall under the purview of regions rather than central governments (Keune 1998). Approaching EU expansion, the 1999 Regional Policy reforms affecting the 2000-2006 programming period reinforced the partnership principle with central governments and gave them power over the participation of regions in Regional Policy. Thus, contrary to general beliefs of many CEE countries, associating EU membership with support for decentralization, accession often strengthened national governments (Baun and Marek 2006; Bruszt 2008). Moreover, the Commission largely maintained its influence over Regional Policy concentration and programming in negotiation processes with those national governments (Bachtler and Mendez 2007). In this way, the role of regions and the "Europe of the Regions" strategy became sufficiently weakened once CEE countries joined the EU, allowing the present situation of fragmented local governments and weak or non-existent regional governments – again, with the exception of Poland – to prevail throughout much of CEE.

The situation described above draws together EU Regional Policy and decentralization with the state of territorial cohesion, namely the persistence of regional

inequalities in CEE. Regional inequalities have been widening across Europe as a whole (European Commission 2014), with most recent indications showing that this trend has slowed (European Commission 2017). Nevertheless, it is well accepted that increasing inequalities in CEE have led to spatial patterns of regional polarization that Regional Policy has been unable to reverse; processes of polarization and peripheralization have become entrenched in economic, social and political dimensions (Kühn 2015). In the longer term, the transition period that showed rapid growth was found to have generally benefited capital regions in CEE, thereby increasing regional disparities (Horváth 2000), while regional policy tended towards being set and delivered centrally. By the start of the current Regional Policy programming period, the official review of the policy not only mirrored the dominant place-based development paradigm that rests on the knowledge and participation of local and regional actors, it also called for programme simplification and a renewed focus on good governance, highlighting comparatively low-quality governance and low regional self-rule in CEE countries, factors purported to reduce the impact of Regional Policy (European Commission 2014). This has been repeated in the most recent policy review, by the mid-term of the current programming period (European Commission 2017). In light of these deficiencies, several authors have commented on the "projectification" of Regional Policy and the related emergence of a "project class" of specialized experts that came to fill institutional gaps in CEE during the previous programming period, especially in the most peripheral regions (Kovách and Kučerová 2006, 2009; Aunapuu-Lents 2013). For a closer look at the institutional development with respect to decentralization and regional-policy trends in CEE, the cases of Estonia and Hungary are developed in the following section.

4. Comparative cases: Institutional Development in Estonia and Hungary

The comparative cases are built upon fieldwork in Estonia and Hungary investigating institutional development and transformation surrounding regional policy since their political and economic transitions to the present. Estonia and Hungary are both unitary states, which, according to the decentralization literature, may make them prone to wider regional inequalities (Shankar and Shah 2001). Both countries have benefited from EU Regional Policy since their accession in 2004 and have generally seen relatively fast national growth until now despite their internal regional inequalities (European Commission 2017). While much of the decentralization literature reviewed above relies on a quantification of decentralization and its relation to an outcome such as economic development or inequality, running into the aforementioned difficulties in measurement, the cases below rather aim to describe the institutional reforms with respect to decentralization and regionalization trends, offering explanations for the resulting institutional arrangements and for their implications for regional policy and territorial inequalities. In doing so, decentralization is treated as a "cross-cutting issue" (Litvack et al. 1998) rather than focusing on specific aspects (e.g. administrative, fiscal or political) that are difficult to separate in practice. In this respect, the methodological issue of measuring decentralization is left behind, and the ideals and practical implications of a decentralized regional policy in the two different national contexts come to the forefront.

Interviews were conducted with policy experts who worked to develop and implement regional policy during this period and, therefore, can attest to the institutional transformations. The issue of a decentralized versus centralized regional policy featured prominently in interviews, calling up interpretations of the purpose of regional policy and expectations of EU membership and programming with respect to institutional reforms, as well as their perceived challenges and failures of these policies and institutions. Ten regional policy experts were interviewed in Hungary and five in Estonia from November 2015 to February 2017. Experts were selected based on their personal knowledge of regional policy formulation and implementation as well as experience with institutional transformations. They primarily represented the public sector in government and academic roles, with considerable overlap between the two, while overlap with the private sector (i.e. consulting) was also common. From both countries, leading national experts and experts with long-term experience dating to the socialist period were included, thereby imparting a comprehensive view of institutional development. The semi-structured interviews ranged from 45 minutes to two hours in length, with an average length of over one hour. Interviewees were asked to trace the timeline of institutional development, along with changes in policy orientation, conflicts and challenges. They were also asked to comment on key features of EU Regional Policy in their national policy development, such as territorial cohesion and the application of the competitiveness and growth agenda.

The cases reveal several aspects of institutional development pertaining to regional policy and the on-going tension surrounding the issue of decentralization that follow in the sections below, and the sections are arranged in two parts. First, the decentralization, regionalization and re-centralization trends in the transition, pre- and post-EU accession periods are developed. Following this, implications of these processes on the overall stability of regional policy institutions between Estonia and Hungary are discussed.

4.1 Decentralization, Regionalization and Re-centralization

In the investigation of regional policy institutions in Estonia and Hungary, a central theme in experts' accounts was still the decentralization processes of the 1990s, followed by different responses to EU-inspired regionalization, which, nevertheless, resulted in similarly centralized policy institutions. Scholars of the postsocialist transition period highlighted different points of departure between countries leading to more institutional variation within the region, noting that, "innovators had to work with and around existing institutions," relating to the institutional aspects of power, actor-network and legitimacy (Stark and Bruszt 1998, 6-7). The inertia of existing institutions varied widely, and between Estonia and Hungary, one can observe different responses to institutional transformation through initial decentralization processes.

Estonia has had a two-tiered system of government since the 1993 Local Government Organization Act abolished the county level, leading to what was effectively considered fiscal decentralization, albeit with low autonomy for local governments, which was deemed by external organizations to be detrimental to efficiency

and accountability (World Bank 1995). Likewise, Hungary's 1990 Local Self Government Act defined roles and responsibilities of regions, counties and local governments, and provided local governments with a range of revenue sources (World Bank 1992), although earlier reforms of the 1980s already began to introduce privatization and regional development principles (Interview, 25 November 2015 (1), Pécs, HU). The 1996 Act of Regional Development and Physical Planning created Regional Development Councils, further enforcing decentralization through regionalization and (temporarily) reinforcing the intermediary levels (Pálné Kovács et al. 2004). Comparing these first-wave reforms in the two countries, it is apparent that different approaches to decentralization, leading to a relatively simple fiscal decentralization in Estonia and a complex separation of powers in a multi-tiered Hungary, could present different opportunities and challenges for tackling regional inequalities as well as different conditions for implementing Regional Policy.

Moving towards EU accession, the availability of EU Structural and Cohesion Funds and their pre-accession counterparts was instrumental in shaping regional policy and related institutions in Estonia and Hungary, albeit in different ways. This brings the logic of the EU Regional Policy system as applied in CEE into question with regards to the territorial unit, NUTS-2 regions, that offered different possibilities and altered expectations for national regional policy in Estonia and Hungary. Experts in both countries indicated that the NUTS-2 level, used to determine eligibility for Cohesion Funds and to provide the territorial framework for regional interventions, were (and still are) considered irrelevant territorial units within the national systems, which had implications for regional policy after accession.

In Hungary, the articulation of NUTS-2 regions was considered by the EU to be an internal affair (Horváth 1999). Nevertheless, the EU made their creation compulsory, even though these NUTS-2 regions did not work in Hungary (Interview, 25 November 2015 (1), Pécs, HU). The intermediary level of government was traditionally the county level (NUTS-3) – greatly empowered during the decentralization programme of the 1990s – and the NUTS-2 level was at a territorial scale without historical political or institutional precedent. Hence, the resulting regions providing the basis for Regional Policy did not reflect spatial or functional relations. According to interviews with policymakers involved in the creation of these regions, the boundaries are viewed to be more or less arbitrarily defined (Interview, 30 January 2016 (1), Békéscsaba, HU; Interview, 30 January 2016 (2), Békéscsaba, HU). Thus, their function became limited to that of statistical areas rather than natural units for territorial development, and the transfer of functions and creation of new institutional capacities at the NUTS-2 level was seen as untenable. Moreover, without regional identity and institutional capacities, the regions could be used as concentrated organs of the central government (Interview, 25 November 2015 (1), Pécs, HU).

In comparison, Estonia, as one single NUTS-2 area, eliminated any push for differentiation between more and less developed areas in the country in terms of Regional Policy. Its traditional counties, representing functional areas, fall to the LAU-1 (i.e. local) level according to the NUTS system. The neglect of Regional Policy to address Estonia's internal regional inequalities was seen to contradict the logic of pre-accession instruments that were focused specifically on problem regions:

> [T]he approach that the EU had was very different [from] the implementation logic that we had to use after we became a member, so that the Phare funds were somehow designed from the logic that only parts of the territory were eligible in the Structural Funds … [T]here was some regional development project that prepared, for example, regional development plans for Western Estonia [and] Southern Estonia, with the hope that according to those longer term development plans certain Structural Funds would be used, but later, of course, it turned out that Structural Funds were not meant for specific territories within Estonia, but for the country as a whole, and very much [for] specific sectors (Interview, 17 May 2016, Tallinn, EE).

Furthermore, innovation support built into EU programmes for economic development tended to favour the relatively prosperous core cities, Tallinn and Tartu, through spatially blind competition (Interview, 28 February 2017, Tallinn, EE). This national, sectoral orientation of regional policy in Estonia is very much in contrast to formal programme ideals and implementations in larger countries.

Despite the necessary movements in the creation of NUTS regions to implement EU Regional Policy, a functioning intermediary level has failed to institutionalize in Estonia and Hungary. Rather, EU influence entrenched centralization processes. Campbell and Coulson (2006) claim that regionalism may have been seen as a less legitimate aim in CEE than in Western Europe due to the more pressing need to consolidate the nation-state and support local democracy, while Bruzst (2008) contends that the Commission attempted to flatten multi-level governance in the new member states. In the Czech Republic, the potential for regionalization has been attributed to EU accession (Baun and Marek 2006). However, the delay of its implementation indicates the low priority of region-building, as responsibilities for regional policy remained centralized in the Ministry for Regional Development. In Hungary, EU conformity eventually necessitated the creation of a highly centralized system to deliver EU Regional Policy in the pre-accession period, a system that would parallel and then supplant the earlier decentralized system developed with Phare funds that included, as an aim, "strengthening the role of decentralization through regional authorities" (Fazekas and Ozswald 1998, 44). As mentioned above, the NUTS-2 level failed to materialize institutional capacity, and the functioning intermediary level of the counties (NUTS-3) lost power and capacity as the centralized EU structures drew away national funds. In the most recent centralized system, an expert saw "over-politicization" in everything related to regional policy (Interview, 25 November 2015, Pécs, HU), which could have detrimental effects on the impact of Regional Policy according to the earlier mentioned governance indicators (European Commission 2014, 2017). In Estonia, the promise of EU funds led to the creation of a centralized system to administer sectoral projects nation-wide, where comparatively little funds for regional policy existed beforehand. Nevertheless, the centralized regional policy was not framed in terms of having detrimental governance aspects in the Estonian case, but rather highlighting contradictions between Regional Policy objectives and the programming framework for its implementation in terms of its (lacking) focus on regional inequalities. The difference between the two countries' approaches to regionalization and how the centralized systems may

operate belies a relatively interventionist regional policy in Hungary versus non-interventionist policy in Estonia, which is reflected in the complexity of institutional arrangements.

EU Regional Policy requires a high degree of governmental control and coordination, aspects of governance that have long been likened to over-centralization and overreaching from top hierarchical levels in developing countries characterized by weak institutional capacities (Agarwala et al. 1983). In such countries, the strong need of central governments to coordinate was seen, perhaps paradoxically, to indicate a need for decentralization rather than improved efficiency and tighter controls. In CEE, the weakness of the newly reformed institutions and the necessity of building capacity quickly for EU compliance may have rendered the countries particularly vulnerable to renewed forces of centralization. While EU Regional Policy has no doubt shaped the development of related national institutions, its centralizing influence after accession seems to have come as a surprise in both countries.

4.2 Implications of Institutional Change and Regional Policy

The processes of decentralization, regionalization and re-centralization of regional policy institutions in Estonia and Hungary described above indicate different paths of institutional development, presenting certain implications for the associated theoretical benefits of decentralization and regional inequalities. In the following section, the implications of institutional change and regional policy related to the above-described processes are discussed.

Viks and Randma-Liiv (2005) remarked that very little change had occurred in public administration in Estonia despite numerous discussions surrounding reform packages. In the case of Regional Policy, relative stability appears to be the case according to several national experts. The portfolio itself has transformed from a shared responsibility between the Ministries of Agriculture, Economic Affairs and Interior in the early 1990s, to a distinct Department of Regional Development under the Minister of Regional Affairs in 1997, which was then shifted to the Ministry of Interior in 1999 and finally the Ministry of Finance in 2015 (Interview, 5 May 2016, Tallinn, EE). Moreover, regional (i.e. country-level) competences have been gradually centralized into these relatively stable national institutions (Interview, 5 May 2016, Tallinn, EE), and the neoliberal ideology of non-intervention has remained constant (Interview, 17 May 2016, Tallinn, EE) along with political continuity of the ruling party.

A shift occurred in the power of policy actors representing the regional dimension in Estonia, as county governors – initially ministers without portfolio acting in the national public sphere – were diminished in status, and the competences of counties were stripped away. Recent reforms passed in the parliament aim to abolish county governments altogether and enforce amalgamations of municipalities with fewer than 5000 inhabitants. Without expounding upon the merits of amalgamation, the crude action of territorial rescaling in the Estonian context, characterized by sparse population centres and low population density outside the capital region, may provide an impetus for further institutional transformations, effectuating a form of regionalization or enabling future decentralization to stronger municipalities.

In contrast to Estonia's institutional stability, the Regional Policy portfolio in Hungary has been subject to continuous institutional change. Hungary's home-grown regional policy dates back to the 1970s and went through bureaucratic, transitory and decentralized policy periods until the late 1990s (Horváth 1999). The Ministry of Environment and Regional Policy established in 1990 consolidated activities previously divided between the Ministry of Environment and Regional Policy, the Ministry of Transport, Building and Communication, the Ministry of Finance, and the Ministry of Interior (Interview, 16 December 2015, Budapest, HU), during which time the 1996 Law on Regional Development and Physical Planning ushered in the most significant period of decentralization. Before and after EU accession, regional policy continued to be shuffled into reorganized ministries and government offices, largely coinciding with frequent changes of government and their corresponding political ideologies. In 1998, regional policy was moved to the Ministry of Agriculture and Regional Development, and in 2002 and 2004, the National Office for Regional Development and National Development Office, respectively, were established in the Prime Minister's Office. In 2006, the Ministry of Local Authorities and Regional Development was established, and the National Development Office was transformed into the National Development Agency. In 2008, these responsibilities were moved to the Ministry of National Development and Economy, only to be divided again in 2010.

On-going centralization in Hungary can therefore be distinguished over the past fifteen years, over which time the quality of governance has also decreased (European Commission 2017). An expert considered the resulting policy to be ineffective due to the high turnover of ministers who did not hold their positions long enough to properly grasp the subject or their responsibilities (Interview, 16 December 2015, Budapest, HU). Nevertheless, stability existed in the form of some staff members who followed the portfolio through the institutional transformations, a characteristic of the Hungarian case which may contrast with the generally high turnover observed in the Estonian civil service (Viks and Randma-Liiv 2005). Despite this, the quality of governance in Estonia has risen above the EU average (European Commission 2017).

Independent and EU-driven institutionalization processes have been used to explain cross-national differences of regional policy in CEE countries in the pre-accession period. According to Brusis (1999): "The EU and the pre-accession constellation, the legacies of state socialism and of early institutional choices during the transition, the challenges of economic restructuring, and the domestic actor constellation are the determining factors in the institutionalisation of [regional development] policy" (19). These are certainly applicable to the relatively complex and unstable institutional arrangements in Hungary compared to the simple and stable institutions in Estonia. Moreover, a two-stage transition has been identified in CEE: first, through the reorientation of regional development policy from socialist-style equalization to supporting endogenous capacities; second, through the transfer of Western institutional models, especially in the cases of Hungary and Estonia (Brusis 1999). More than ten years following EU accession, conflicts between Brusis' determining factors have produced further variation of institutional arrangements, particularly some exceptionalism of Estonia, which is likely to be shared amongst other small member states.

The analysis thus far indicated that EU constellations promoted territorial rescaling and regionalization as well as centralization of regional policy. This can be seen in the Hungarian case, through the technical translation of NUTS regions and the ultimate failure to institutionalize regional capacities, although there is no indication of rescaling driven by EU Regional Policy in Estonia. As mentioned, the independently organized regional policy institutions in Hungary and Estonia, as well as institutional transformations supported by pre-accession instruments such as Phare, proved to run counter to the logic of post-accession EU instruments requiring a high degree of centralization. As a result, the independently produced structures, operating as programmes in problem regions in Estonia and regional administrations in Hungary, were all but scrapped in favour of central managing authorities.

Brusis' (1999) vision of a post-accession regional policy agreed with the expectations of experts in Hungary and Estonia, believing that pre-accession instruments would transition to a further decentralization of policy institutions: "The pre-accession constellation leads to an institutional homogenization in [regional development] policies since the adoption of the EU cohesion policy entails setting up cooperative and decentralized implementation structures in all applicant countries" (23). Nevertheless, this expectation of decentralization involved, amongst other features, "participation of regional authorities and economic actors, programme-based instead of project-oriented [regional development] planning and financing … [and] NUTS-2 compatible regions" (24). These relate to institutional capacities and count amongst the failures of the current policy identified by experts in both countries.

Institutional stability or instability has also had implications for institutional capacities. Along with the movements of Hungary's regional policy portfolio between various ministries and agencies, the training and employment of professionals has varied between different levels of government and the public and private sectors (Interview, 30 January 2016 (1), Békéscsaba, HU; Interview, 30 January 2016 (2), Békéscsaba, HU). Policy experts indicated that they were involved in the training of new professionals for the emerging field of regional development, which contracted as regional agencies were centralized, and shifted to the private sector to compensate for losses in institutional capacity. In this sense, decentralization through privatization has been a significant force in Hungary, as shown by the emergent project class (Kovách and Kučerová 2006, 2009).

The situation in Estonia, however, reflects the limited personnel in a small country and the culture of multi-functionalism amongst qualified professionals who move legitimately between public, private and academic sectors, which may lead to a concentration of power (Aunapuu-Lents 2013). Combined with relatively low population density, these aspects demand reflection upon the potential ideological goals of a decentralized regional policy in Estonia, where the issue of local and regional capacity may be more a matter of scale than representation in policy formulation and implementation. In this respect, it is not clear that the centralized regional policy of Estonia is necessarily detrimental to local and regional development in the same way that it has been represented by Hungarian experts. This can be confirmed by the recent review of Regional Policy that considers the impact of quality of governance on Regional Policy performance, showing improvements in governance in Estonia (in spite of regional policy being consistently centralized) and declines in quality of

governance in Hungary (European Commission 2017). Perhaps the current municipal amalgamations process in Estonia will serve as a form of regionalization, thereby presenting an opportunity to improve capacities further at the sub-national level. Nevertheless, this reorganization of resources approaches the problem in terms of efficiency in an already relatively efficient administration, favouring the centralization argument. Instead, the issue of weak local and regional institutional capacities in Estonia may be better addressed through other innovative and, possibly, non-territorial approaches, the likes of which could be welcome solutions across CEE.

Given that the highest future impact of Regional Policy is foreseen in CEE, including in Estonia and Hungary, and that governance indicators have worsened in Hungary during the period of re-centralization (European Commission 2017), it follows that renewed attention to institutional capacity focusing on issues related to decentralization and regionalization could feed back into reducing regional inequalities.

5. Conclusion

In the past decade, decentralization has faded from the policy agenda in the postsocialist CEE countries, raising questions about the relationship between the related principles of democracy and efficiency and the persistence of inequalities in the region. This investigation has characterized regional policy institutions as relatively stable, albeit centralized, in Estonia and relatively unstable and complex in Hungary, demonstrating differences in institutional development in the two countries over the course of a quarter-century of transformation. As the general waves of decentralization and regionalization swept across CEE, the institutional arrangements in Estonia and Hungary diverged, only to become highly centralized again in both countries under the EU Regional Policy regime. While democratization and EU accession brought incentives and, indeed, assistance to decentralize, the examination of national regional policy institutions suggests that EU membership countered the political desire to decentralize with new re-centralization forces motivated by the efficiency argument.

The cases of Estonia and Hungary reveal contradictions between the logic of EU Regional Policy, as it was transferred to CEE countries during EU accession, and other political objectives associated with decentralization and regionalization – institutional development, capacity and legitimacy – that could theoretically have impacts on regional inequalities. Thus, institutional capacity and stability remain important issues for regional policy in these countries. Despite early reforms supported by the EU and international governmental organizations since the time of political and economic transition, decentralization has not been continually pursued through institutional transformations, even though evidence from Estonia and Hungary suggests that decentralization was indeed an ideological objective during the first waves of administrative reform. Preparations for EU accession that supported principles tied to democratic reform through decentralization and regionalization were short-lived; regionalization failed in Hungary and never took off in Estonia, partly due to programme technicalities of EU Regional Policy. After EU accession, subsequent reforms to EU Regional Policy further reinforced centralization for programme efficiency.

The purported benefits of decentralization to local and regional autonomy are unrealized in both countries, while the necessary institutional capacities remain underdeveloped. This situation could potentially pose a hindrance to the development of lagging regions in countries where EU Regional Policy is the main resource for targeting regional inequalities. Centralization may indeed bring efficiencies in programme delivery, but policy experts consistently referred to institutional challenges for local and regional actors to realize successful projects on the ground, such as the capacity to navigate the complexities of Regional Policy. The gains in administrative efficiency may be offset by losses in project quality, affecting the overall impact of the policy. It is therefore suggested that, in the tension between democratic legitimacy and economic efficiency, the appropriate level of decentralization in CEE countries should find a medium that errs towards democratic legitimacy once more. EU Regional Policy, with its demonstrated ability to influence institutional development, could be used to that purpose.

The effects of the institutional transformations on regional inequalities in Estonia and Hungary cannot be directly determined by this study. Nevertheless, the theoretical implications can be expounded. The cases of Estonia and Hungary suggest that, in the absence of effective decentralization or regionalization, the basic institutional arrangements for the central delivery of EU Regional Policy programmes do little to support programme objectives in themselves, and there is a missed opportunity to support these objectives through institutional design. This is reinforced by the supposed irrelevance of the NUTS-2 level for Regional Policy delivery in both countries, even though the national regional-policy programmes are currently highly centralized. Thus, it is suggested that the future Regional Policy should consider innovative new ways to deliver programme benefits at relevant scales within member states that might further support the higher principles related to decentralization, even if the political drivers of decentralization within particular CEE countries themselves may be relatively weak. The policy would thus respond to weak governance and institutional capacity in the post-2020 period that appears to be a hindrance to inequality-reducing developments, according to both the cases herein and the official policy reviews.

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