Cohesion Policy and institutional change in Hungary and Estonia
Bradley Loewen

ABSTRACT
In the discourse on European Union Cohesion Policy (EUCP) reform, much attention is being paid to policy content, while less attention is being paid to the institutions responsible for adapting and implementing EUCP in national contexts. From a historical institutionalist perspective, regional policy institutions in EU member states are influenced in part by EUCP and national institutional contexts and legacies. Central and Eastern European (CEE) countries, in particular, have grappled with institutional transformations in the recent era including the transition, pre-accession and post-accession periods, but the influence of EUCP on institutional change has not been well studied following EU accession. Using the cases of Hungary and Estonia, this study builds upon comparative research on CEE from the transition and pre-accession periods, providing an updated view of institutional developments with the aim of widening current understandings of EUCP. Different mechanisms of institutional change are highlighted, pointing to cross-country inconsistencies in the Europeanization process and implementations of EUCP resulting in weak institutions and ambiguity surrounding core policy concepts. Thus, the study reinforces the importance of national institutions for EUCP outcomes and legitimacy, which should factor into current discussions of EUCP reform for the future programming period.

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INTRODUCTION
As discussions on the post-2020 period of European Union Cohesion Policy (EUCP) escalate, issues surrounding domestic institutions for effective policy implementation in Central and Eastern Europe (CEE) are resurfacing. However, the recent debate on EUCP reform has tended to focus on tangible issues of policy content, conditionalities and performance monitoring (Avdikos & Chardas, 2016), rather than on less tangible institutional factors affecting capacities to achieve policy objectives amidst growing regional polarization. By adopting a historical institutionalist

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approach to the study of EUCP and institutional development, this research asks how the evolution of domestic institutional arrangements in CEE countries may affect policy outcomes. To answer this, it is necessary to examine the longer-term evolution of administrative, policy-making institutions, building on comparative research produced before EU accession. The cases of Hungary and Estonia are used to trace the institutional path trajectories in post-socialist countries that underwent Europeanization processes and continue under EUCP. The paper proceeds with an overview of path dependence and historical institutionalism (HI), followed by the methods and empirical material, case development and conclusions.

PATH DEPENDENCE AND INSTITUTIONAL DEVELOPMENT IN CEE

As a concept broadly describing the policy effects of historical events exhibiting ‘increasing returns’ and ‘lock-in’ (Arthur, 1989), path dependence is widely used to explain regional economic development, becoming a core aspect of the regional innovation systems literature that has come to shape EUCP (Tödtling & Tripl, 2005). Path dependence has also been ascribed to institutional development (North, 1991) and employed in HI, a school of thought concerned with explaining contextual features of institutional origins and change, and, increasingly, incremental change unfolding alongside the ‘critical junctures’ that enable radical reforms (Mahoney, 2000; Pierson, 2004; Thelen, 1999, 2003).

By tracing institutional change over time, HI offers a lens for comparing EUCP-related institutions in order to explore links between institutional arrangements, policy and outcomes. Administrative institutions including formal structures and informal processes behind the generation and implementation of EUCP are hereby put into focus. While HI has been applied to the development of EUCP itself (Mendez, 2012), its application to related institutions is less explored, even though the importance of institutions to regional development is widely acknowledged (Rodríguez-Pose, 2013).

Prior research on CEE countries examined processes of administrative and territorial reform (e.g., Brusis, 1999, 2002; Bruszt, 2008), framed as ‘Europeanization’ (Grabbe, 2001, 2014), and implying institutional convergence to a European norm. Given the divergent political–institutional structures and regional development outcomes now existing between CEE countries, it follows from the HI literature that institutional legacies and different mechanisms of change may yet play a role in EUCP implementations and outcomes. This research takes a step forward in carrying the existing body of comparative research on CEE into the current policy era.

METHODOLOGICAL APPROACH

In the investigation of institutional change in CEE, the cases of Estonia and Hungary were chosen to maximise difference within the region, being of different sizes, traditions and economic structures but undergoing parallel post-socialist and EU transition processes. A comparative historical analysis based on principles of HI was performed using 15 expert interviews (Table 1), supplemented by EU documents and national legislation (Table 2) (see also Loewen, 2015). Interviews were recorded, transcribed and qualitatively analyzed alongside the reviewed documents to construct comparative profiles based on chronologies of EUCP and domestic institutional development.

Expert interviews are particularly useful for informing path dependence, which requires knowledge of ‘behavioural routines, social connections and cognitive structures around an institution’ (Page, 2006, p. 89). Respondents traced institutional development since the systemic transition of the early 1990s, reflecting upon their roles, key milestones of policy and institutional change, and the strategies, successes and failures of domestic regional policy in order to reveal both radical (i.e., critical junctures) and incremental change. Respondent profiles extended
back to the socialist period in both countries, and the prevalent multifunctionalism of personnel between government, academic and private sectors opened the scope of respondents’ expertise beyond their current positions and sectors. Estonia especially exhibited limited personnel and concentration of expertise to the national level, which resulted in the exclusion of local politicians and, ultimately, a smaller number of participants.

Table 1. Interview respondents.

| ID | Organization | City | Date          |
|----|--------------|-----|---------------|
| Hungry |             |     |               |
| H1  | Public servant, Ministry for National Economy | Budapest | 24 November 2015 |
| H2  | Public servant, Ministry for National Economy | Budapest | 24 November 2015 |
| H3  | Academic, Hungarian Academy of Sciences; formerly public servant, Ministry of Environment and Regional Development | Pécs | 25 November 2015 |
| H4  | Academic, Hungarian Academy of Sciences; formerly public servant, Ministry of Interior | Pécs | 25 November 2015 |
| H5  | County councillor (Hungarian Socialist Party); formerly member of parliament | Anonymous | 11 December 2015 |
| H6  | Public servant, Ministry of Interior | Budapest | 16 December 2015 |
| H7  | Mayor (Fidesz); formerly member of parliament | Anonymous | 13 January 2016 |
| H8  | Academic, Hungarian Academy of Sciences | Békéscsaba | 26 January 2016 |
| H9  | Academic, Hungarian Academy of Sciences | Békéscsaba | 26 January 2016 |
| H10 | Academic, Hungarian Academy of Sciences; former mayor and member of parliament | Békéscsaba | 27 January 2016 |
| Estonia |             |     |               |
| E1  | Academic, University of Tartu; formerly practitioner, financial sector | Tartu | 27 April 2016 |
| E2  | Academic, Tallinn University of Technology; formerly public servant, Ministry of Environment, and practitioner, regional development sector | Tallinn | 5 May 2016 |
| E3  | Public servant, Ministry of Finance | Tallinn | 17 May 2016 |
| E4  | Practitioner, Interreg/Tartu Science Park | Tartu | 11 November 2016 |
| E5  | Academic, Tallinn University of Technology | Tallinn | 28 February 2017 |

NATIONAL INSTITUTIONS FOR COHESION POLICY: HUNGARY AND ESTONIA COMPARED

The regional questions were crucial political questions, always in Hungary. (interview H6)

I would say that [regional policy] has not been a high priority [in Estonia] … since restoration of independence. (interview E2)

The above attitudes towards regional policy set up the path-dependent processes of incremental and radical change on EUCP-related institutions in Hungary and Estonia respectively. These
different mechanisms of institutional change associated with socialist extrication frame the analysis, which is structured according to policy periods emanating from key critical junctures: the transition period following regime changes in 1989/91; the pre-accession period following accession agreements in 1998 that formalised institutional requirements for accession; and the post-accession period following 2004, when the countries entered into the EUCP. Hungary’s continuity of institutions and actors through the transition period recalls incremental ‘institutional layering’ (Thelen, 2003), incorporating socialist institutional legacies. In contrast, Estonia’s replacement of Soviet legacies with new actors and institutions suggests a functional redesign enabled through ‘event sequencing’ (Mahoney, 2000) and ‘reactions’ and ‘backlashes’ (Pierson, 2004), wherein national independence triggered radical institutional reform. As elaborated in the following sections, these differences may have driven different regional policy responses, i.e., path trajectories, under the common EUCP.

### Transition
Institutional transformations following regime changes in 1989 (Hungary) and 1991 (Estonia) did not necessarily make regional policy a high priority. The abolition of socialist-era planning districts in Hungary (Act LXV of 1990) and Estonia (1993 Local Government Organisation Act) potentially constrained the initial development of regional policy institutions, although the legacy of Hungary’s early experimentation with decentralization illustrates a path dependency, as key figures and foundations for regional policy were already in place. Since it aimed to join the EU before other CEE countries, Hungary’s institutional transformation was focused on rapid convergence to EU standards, indicating an early willingness to implement proactively Europeanizing reforms (interviews H4, H5 and H9). Initiatives to counter historical polarization between Budapest and the countryside began during the socialist period and led to a decentralised, collaborative and bottom-up regional policy system by 1996 (Act XXI of 1996; interviews H1, H3, H4, H6 and H9), positioning Hungary as a leader for regionalization in CEE. In comparison, Estonia’s abolishment of Soviet actors and structures left an institutional void paired with an ideology of non-intervention in regional development (interviews E2 and E3). The absence of regional policy, nonetheless, spurred regional polarization, reversing the Soviet-era trend of rural living (interview E1). Thus, the emerging regional policy (or lack thereof) during
the transition period came as a reaction to socialist systems that can be characterised as incremental change in Hungary and radical change in Estonia.

**Pre-accession**

The pre-accession period from approximately 1998 to 2004 marked a relatively active time of regional policy institutionalization shaped by Europeanization processes. The ‘Europe of the Regions’ strategy focused political attention on the regional level and introduced concepts such as multilevel governance and cross-border cooperation, which would rely on the creation of capable regional authorities. Hungary and Estonia were frontrunners of reform, having initiated policy changes before EU incentive structures were in place (Brusis, 1999). Territorial reforms saw the application of the European Nomenclature of Territorial Units for Statistics (NUTS) system and re-creation of regions in Hungary, but not in Estonia (Brusis, 2002). In Hungary, this was associated with decentralization and the creation of a new NUTS-2 level, furthering the regionalization process (interviews H1, H3, H4 and H6–H9). Nevertheless, experts who contributed to defining these regions believed they lacked political legitimacy and historical precedence (interviews H3, H4 and H9). As one NUTS-2 unit, Estonian regionalism remained non-existent except for some small spatially targeted programmes (interview E3), while the strategy of macroeconomic convergence with the EU was preferred over tackling regional inequalities (interviews E2 and E3).

Whereby Agenda 2000 set forth Europeanization processes supported by pre-accession instruments such as Phare for institutional capacity-building and infrastructure investments (Grabbe, 2001), provisions were made in accession partnerships to integrate this practice with preparations for EUCP. Phare investments were effectively targeted to problem (sub)regions in Estonia (interview E3). While Hungary’s decentralised pre-accession regional policy successfully built institutional capacity in the peripheries (interviews H5–H7), the transition to European frameworks resulted in the defunding of the previous system (interviews H1, H8). As such, regional policy in the pre-accession era contained some logic of spatially targeted intervention – even in Estonia, where experts believed there was no ‘real’ regional policy (interview E3) – but the expectations of regionalism symbolised in the ‘Europe of the Regions’ and NUTS system would not materialise after accession. In both countries, the period ended with disruptions to EUCP-related institutional development.

**Post-accession**

The 2004 accession marked a break from the pre-accession institutional development that soon coincided with the ‘radical reform’ (i.e., ‘Lisbonization’) of EUCP in 2006 (Mendez, 2012, p. 161), a critical juncture that further enabled institutional change at both the EU and national levels. Evaluated to be lacking in necessary procedures, institutions, financial and management controls one year before accession (European Commission, 2003), the European Commission designated single contact points as managing authorities in each country, ending the potential for direct EU–region relations. This approach supported convergence in institutional arrangements across countries as the relationships between the EU and national institutions were standardised. Experts highlighted the contradiction between this harmonization and previous programmes that had emerged through individualised relations (interviews H4, H6 and E3), confirming similar claims of contradictions between policy objectives and EU-led reforms during the pre-accession period (Brusis, 1999).

Even as the designation of central managing authorities was as an act of efficiency for implementing the *acquis communautaire* – the consolidated EU law guiding reforms in accession countries – the radical change interrupted recently established institutional path trajectories and expectations for programme delivery. According to Hungarian experts, the lack of functional relations with the EU contributed to the failure of its NUTS-2 regions (interviews H4, H6 and
H9). In Estonia, the transition from Phare to NUTS-based programming led to a spatially blind regional policy (interview E3). This sentiment was also echoed in Hungary regarding the similarities between regional operational programmes in subsequent periods (interviews H3, H4 and H9).

Accession initiated recentralization processes in CEE (Bruszt, 2008), while subsequent programming periods have supported continued centralization amidst an increasingly neoliberal policy convergence (Loewen, 2015; Mendez, 2012), counteracting earlier reforms and interrupting institutional path trajectories. In the current centralised institutional landscape, experts had a pessimistic outlook towards EUCP, expressing doubt over its legitimacy for tackling regional problems and hesitation about its future directions. Centralization processes arising from the constitutional reform of 2011 indicated a reversal of the path trajectory established in 1996 with the abolishment of regional institutions in 2012 (interviews H1, H5–H7, H9 and H10), leaving behind institutional deficiencies, missing vertical linkages and weaker horizontal coordination (interviews H5–H7). According to several experts, centralization resulted from an ‘over-politicization’ of regional policy as the central government aimed to control project initiation and selection (interviews H3, H7 and H10). Meanwhile, regional policy remains low on the political agenda in Estonia, and the central government lacks capable subnational partners to improve regional programming (interviews E2–E4). The reproduction of EU policy elements continues to translate poorly to the Estonian spatial context, while EUCP strategies such as Smart Specialization favour core cities (interviews E4 and E5). In addition to capacity issues, the ambiguity of core concepts of EUCP such as territorial cohesion exacerbates the challenges of designing policy in both countries (interviews H1–H4, E3 and E4).

**CONCLUSIONS**

A resurgence in institutionalist perspectives presents an opportunity to examine such aspects of EUCP during a time of scrutiny over its objectives, implementation and outcomes. By applying a historical institutionalist interpretation of path dependence to EUCP-related institutions in CEE, long affected by regional polarization, the discourse on EUCP reform can be opened beyond current evaluative frameworks.

The analysis of Estonia and Hungary showed different path trajectories and mechanisms of institutional change, building upon earlier lessons of Europeanization and the transformative power of the EU in the CEE (Brusis, 2002; Grabbe, 2001, 2014). Along the common timeline of EUCP development, Hungary exhibited incremental change on a path toward regionalization that was later reversed with centralization, while Estonia exhibited radical change that initially centralized regional policy and left a somewhat conspicuous institutional void. These developments provide insight into the domestic institutional effects on EUCP outcomes in CEE countries afflicted by regional polarization.

Since EU accession, domestic institutional trajectories have been disrupted as EUCP reforms challenged new or newly reformed domestic institutions, suggesting inconsistency in the EU’s commitment as a driver of policy transfer and positive institutional change. While policy harmonization at national levels may have allowed the fulfillment of technical requirements for EUCP implementation, earlier progress in domestic institutions and EU-supported regionalization processes were undermined. In Hungary, for example, the required designation of a central managing authority led to the dismantling of the previously decentralised regional policy system. In Estonia, the national programmes for EUCP condoned by Brussels effaced regional inequalities. In both cases, the resulting institutional arrangements seem to passively oppose the core objective of territorial cohesion. For these reasons, the study points to a need to consider more closely the potential effects of EUCP reform on domestic institutions in CEE, taking into account their historical development paths, in order to support effective policy implementation.
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