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Regional Innovation Policy in Hungary: Façade Regionalism or the Limitations of Achieving Good Governance through Europeanization [†]

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Abstract

This paper surveys the 'Europeanization' of the Hungarian regional innovation policy. We argue that the transposition of EU directives in the national legislation does not automatically fulfill the intermediate objective of Europeanization: good governance. Neither does it necessarily accomplish the ultimate objective of Europeanization: in this case, the reinforcement of the regions' knowledge-based, competitive capacities that enable and enhance their catching-up. We document that Hungary complies with the procedural conditionalities listed in the European regulatory and legislative documents, but procedural Europeanization could not prevent a systemic failure caused by policy opportunism. The paper describes the social mechanism that has brought about state capture (also) within the public policy field of territorial development. We show that instead of substantive Europeanization, a single-actor governance system has been established. The concept of smart specialization in territorial development was easily incorporated in a carefully established system of façade regionalism. Meanwhile the real-world practice of regional innovation and development policy implementation recalls the hierarchical, paternalistic redistribution and subsidy allocation that characterized both the socialist era and the early transition years. This 'traditional' system features however some new elements, referred to by Magyar (2013) as the post-communist mafia state. We conclude that procedural compliance conceals a cynical abuse of the opportunities the Structural Funds offer.

Keywords: regional innovation policy & governance, EU Structural Funds, Cohesion policy, façade regionalism; subsidiarity, Hungary

JEL codes: O38; O43; R58

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1. Introduction

It is often argued that the European Union plays the role of an external institutional anchor for new Member States (NMS) (Csaba, 2005; Ialnazov–Nenovsky, 2011). It facilitates NMS' adoption of good practices in public policy through systematic policy transfer, based on peer reviewing and benchmarking members' policy sub-systems. Furthermore, the EU promotes Member States' institutional capacity development and assists thereby the adoption of norms and the implementation of rules (Radaelli, 2000). Moreover, it enforces compliance to its legislation, rules and norms following accession as well,[1] by applying conditionality-based funding mechanisms.

However, the effectiveness of post-accession conditionality provisions in deepening Europeanization and delivering good governance has been widely questioned.[2] Although some authors anticipated that NMS stakeholders will gradually internalize EU norms and principles and in a learning-by-doing process, and public policy practice will get closer to the ideal-type model of open, inclusive and participative policy-making (Dabrowski, 2013), there were numerous gloomy predictions (surveyed by Dabrowski, 2013) with respect to NMS' shallow integration. Shallow integration refers to NMS' formalistic adaptation to EU rules and norms, where adaptation is driven by actors' opportunistic responses to incentives (Bachtler et al., 2014).

Pessimism with respect to successful policy transfer was explained with the difficulties to overcome adverse institutional and cultural legacies, such as centralized decision-making, low commitment to collaboration (Muraközy, 2009; Sajó, 2008); with the low overall stock of social capital (Csepeli–Prazsák, 2011); with political biases and vested interests (Pálné Kovács, 2009); or with the meagre capability of the EU to block Member States' reform reversals and outright abuses of the opportunities membership provides to them (Ágh, 2014; Falkner, 2013).

Although these latter references all concern the case of Hungary, a broader, more general explanation of policy transfer's poor effectiveness also seems justified, namely that there is a theoretical misconception with respect to the feasibility and usefulness of transferring best practice (Stead, 2012). While best practice is by definition *non-contextual*, its emulation takes place in specific contexts. The contextual (e.g. cultural, institutional) features; the historical legacies and the resulting path dependencies and the actual development level of policy-taking countries/regions usually distort the outcome of policy emulation in general and the adoption of best practices in particular.

On top of this theoretical caveat, if policy-taking is *imposed,* i.e. if not committed reformers try to emulate the European policy practice *in a voluntary manner*, the transposition of rules, institutions and procedures will necessarily be subject to moral hazard: actors' compliance will only be formalistic. They will set up the necessary institutions and adopt the prescribed regulations without taking care of enforcement or simply hollow out the transferred institutions and procedures.

This paper provides a case study to illustrate that *imposed policy transfer* is insufficient for achieving behavioral transformation, necessary for good governance.

[1] Nonetheless, 'conditional membership' was a much more effective incentive driving transforming economies' alignment with EU rules and norms, than 'integration through law' (Falkner, 2013).
[2] See e.g. Dimitrova, 2010; Mungiu-Pippidi, 2014; Schimmelpfennig–Sedelmeier, 2008.

At best, it results in members' procedural compliance with EU requirements. This jeopardizes the *ultimate* objectives of policy transfer: *cohesion* and catching-up.

We investigate the 'Europeanization' of regional innovation policy in Hungary. More specifically, we survey the developments in the governance patterns and policy implementation practices of regional innovation following the transfer of European policies, institutional structures, rules and procedures. This allows us to analyze the shortcomings of regional innovation policy implementation in Hungary in a system failure framework.

Recently, with the reform of the EU cohesion policy, European regional development and regional innovation policies, themselves, underwent substantial institutional and procedural changes (Barca, 2009). The enhanced emphasis of competitiveness and smart growth among cohesion policy objectives led to the prescription of drafting research and innovation strategies for smart specialization (RIS3)[3] at a regional (and also at national) level. This decision reflects the recognition that different regions face different industrial and innovation policy challenges (Reid, 2011). Region-specific priorities addressed by developmental interventions are determined by the given regions' endowments, industrial and technological specialization, distance to the technology frontier, institutional development, collaboration intensity among actors, and intra- and inter-regional linkages. Hence, appropriate policies are tailored to the regional context. Policy design needs bottom-up, participative approaches (empowerment of local stakeholders and leveraging their region-specific knowledge), and mechanisms that foster policy learning: feedbacks and evaluations (see review by McCann–Ortega-Argilés, 2013). In a nutshell the argument is that policy-making should be evolutionary and adaptive, which necessitates partnership among representatives of different administrative levels.

In order to enforce the adoption of these principles and foster thereby the appropriate use of EU funding, RIS3 preparation was stipulated as *ex-ante conditionality* for receiving funding from Structural Funds (SF). The stipulation of *compulsory policy adoption* seems self-explanatory in the light of the significant volume of the resources (funding for regional and cohesion policy amounted to 35.7 % of total EU budget in the 2007 – 2013 budgetary period and has a similar share (32.5 %) in the current period). The EU's inclination to transpose institutional and procedural solutions identified as best practice is also obvious in the light of the pressing problems, that regional economic and social disparities have grown again during the global crisis; and lagging regions' catching-up seems further away at the beginning of the 2014 – 2020 budgetary period than ever (see: Buzogány–Korkut, 2013 for Hungary; and Hollanders–Es-Sadki et al., 2014 for the lack of convergence in regional innovation performance).

This is the context of our investigations of 1) the recent changes in the governance patterns of regional innovation and 2) the specifics of regional innovation policy implementation in Hungary.

The paper is structured in five sections. Section 2 briefly summarizes the related literature. Section 3 surveys the recent changes in the governance of the

[3] Strategies should be knowledge-based, i.e. the fostering of the region's innovative capacities should constitute the main guiding line of the strategic documents. They should be tailor-made, i.e. they should identify and focus on the given region's strategic assets. For details see the RIS3 Guide issued by the European Commission (http://s3platform.jrc.ec.europa.eu/s3pguide). See also: Foray et al., 2011; McCann–Ortega-Argilés, 2013; 2014.

regional innovation system in Hungary. Section 4 surveys some additional features of the system which – above and beyond policy opportunism – explain its weak efficiency. Section 5 concludes and outlines the far-reaching policy implications of our findings.

2. Theoretical framework

As pointed out in the introductory section, this paper is closely related to the concept of Europeanization in general, and to the Europeanization of CEE economies' regional development and innovation systems in particular. Moreover, it is related to a) *broad conceptual issues*, for example whether decentralization is a condition of good governance (Pálné Kovács, 2014); whether the 'European' approach to national and regional innovation promotion is the optimal solution to be emulated; and it is equally related to b) *specific conceptual issues* related to the regionalization of innovation systems and of innovation policies (Cooke et al., 2011; see Gál, 2013 for the Hungarian case); and to smart specialization (McCann–Ortega-Argilés, 2013; 2014).

For space limitations, this review is restricted to a brief survey of the line of research that is the closest related to this paper's focus: the Europeanization of CEE, with a special emphasis on the Europeanization of regional development.

Europeanization refers to the convergence of institutions and policy practice towards the European norm. In Radaelli's (2003, p. 30) wording, Europeanization denotes "processes of (a) construction, (b) diffusion and (c) institutionalization of formal and informal rules, procedures, policy paradigms, styles, ''ways of doing things'' and shared beliefs and norms which are first defined and consolidated in the EU policy process and then incorporated in the logic of domestic discourse, identities, political structures and public policies".

Drawing on Radaelli's definition, the Europeanization of regional innovation policy (one of the key components of regional development policy) can be defined as the adoption of institutional and procedural solutions that enable the participative, multi-level governance of place-based regional development that ensures the adequate prioritization of policy efforts on supporting (the framework conditions of) knowledge generation, diffusion and use.

Regarding the Europeanization of CEE regional development systems, Bruszt, (2008) argues that policy transfer was indispensable, since these countries were more or less lacking territorial governance systems. Since the European Union Structural and Cohesion Funds are allocated on a regional basis, most of the acceding countries had to create the relevant institutions from scratch and make the stakeholders capable to carry out the necessary planning and programming exercises, required to get access to EU funding. The EU's technical assistance has in fact substantially contributed to regional actors' accumulation of competencies: it has enabled the newly created actors to carry out regional planning and programming exercises (strategy design) in systematic and well-substantiated manner (Buzogány–Korkut, 2013).

However, in the Hungarian case, the gradually strengthening efforts to retract the decentralized authorities led to the separation of planning and implementation, which hollowed out the planning and programming procedure (Szalavetz, 2014). The emerging system of 'Europeanized regional development' was described as 'regionalism without regions', marked by weak regional structures with little legitimacy and powerless regional actors; and parallelisms in (duplications of) the administrative structure (Pálné Kovács, 2009; 2013; Buzogány–Korkut, 2013).

Conversely, the contributions that surveyed the relevant developments in other CEE economies (e.g. the Czech Republic, Poland, Slovakia) found that actors in these countries have over time increasingly internalized the transferred norms. Hence the process of Europeanization started to be driven also by actors' socialization with EU principles (Baun–Marek, 2008; Dabrowski, 2012; 2013; Scherpereel, 2010). Sherpereel, for example, – drawing on a large number of interviews with national and regional politicians and bureaucrats engaged in programming, implementation and the management of operational programs – argues that over time, EU practices, discourses and procedures have become increasingly deeply embedded in domestic politics, and they are shaping the operating logics of regional bodies. He contrasts this finding with a nearly consensus view of the scholarship on Europeanization in CEE, claiming that the influence of the EU declines after accession.

A closer review of the details of these publications reveals however, that the difference between Hungary and its Visegrad Group (V4) partners is not as substantial as it is suggested from this review. It is rather a question of interpretation: the bottle is half full, half empty. Hungarian observers tend to emphasize the 'empty' aspects, while the observers of the developments in Hungary's V4 peers focused rather on the emerging positive signs of Europeanization.

Mungiu-Pippidi (2014) advanced a more restrained thesis than the latter-referred scholars on Europe's 'transformative power' claiming that the EU has effectively promoted democracy in NMS but failed to 'transfer' good governance, i.e. an effectively functioning and well-coordinated set of formal and informal institutions that determine who gets what in a given country. Neither conditionality nor technical assistance led to improvement in governance – and, ultimately, to improvement in state capacity.

Regarding the Europeanization of innovation policies in NMS, the assertions of several Baltic country scholars are thought-provoking (Karo, 2011; Karo–Kattel, 2010; Suurna–Kattel, 2010). The authors contend that policy transfer had been very effective in this policy sub-system, in terms of the transfer of the institutional framework, procedures, and principles. However, the *impact* of the Europeanization of innovation policies was ambiguous, since it exacerbated these countries existing problems and deficiencies. These include a fragmented structure of science, technology and innovation (STI) policy-making with rampant coordination problems; a linear conceptualization of innovation; lack of strategic planning, systematic implementation and evaluation; dependence on foreign technology and domestic actors' poor innovation capacities. The referred authors find that the transfer of European institutions (e.g. independent implementation agencies), procedures (competition- and project based instruments), and principles (dominance of horizontal measures) have led to *de-contextualized policy*, and did not contribute to aligning the three stages in the policy cycle: policy design, implementation and evaluation: they became more fragmented than ever.

Drawing on these conceptual and empirical findings we set out to explore the case of the Europeanization of regional innovation policy in Hungary. Our research relies on information compiled, analyzed and presented in various forms by the author of this paper, in the framework of the European Commission's Regional

Innovation Monitor and Regional Innovation Monitor Plus (RIM) projects.[4] This project envisaged the setting up a unique platform for sharing knowledge and know-how on major innovation policy trends in the regions of 20 European Member States. In addition to compiling the Hungarian content of the online inventory of regional innovation policy measures, policy documents and organizations, the author of this paper prepared three detailed regional reports, based on interviews and secondary sources, in the period between 2010 and 2014. These reports were concerned with the innovation systems: policies, instruments and governance of South Transdanubia, Central Hungary and West Transdanubia. Additional tasks included the preparation and regular updating of the seven Hungarian regions' short regional profiles. These profiles contain information, among others, about individual regions' innovation systems, and about the relevant policy and governance issues. To carry out these tasks, altogether, 22 interviews have been made with representatives of regional innovation agencies, regional development agencies, regional NGOs, and representatives of national-level organizations such as the Ministry for National Economy or the National Innovation Office.

3. Case study on the 'Europeanization' of the Hungarian innovation system: 'Façade regionalism'[5]

The Europeanization of the Hungarian innovation system was characterized by a similar trajectory as the Europeanization of territorial governance in the early 2000s. Evaluating these latter developments scholars were of a consensus opinion that despite 'compliance on paper' i.e. the establishment of the relevant territorial governance structures and institutions,[6] Hungary's regionalization ended up in increased centralization (Bruszt, 2008; Pálné Kovács, 2009; 2013; Buzogány–Korkut, 2013). The recurring centralization waves were driven partly by the recognition of anomalies in the system; but also by distrust between the national and the regional-level institutions; and by changing values, ideologies and norms.

The Europeanization of innovation policy and governance, i.e. the establishment and institutionalization of a regional innovation governance system has gone through similar stages, including

- comprehensive, and overly ambitious reforms, and rapid progress in the beginning;
- poor implementation and much debated legitimacy thereafter, leading to
- backsliding (reform reversal).

The subsequent paragraphs will briefly summarise the developments in each of the above stages.

National innovation policies started to take the regional / spatial dimension into account following the 2003. XC. Act on the Research and Technological Innovation Fund (RTIF). The Act established RTIF to ensure a stable financing of research, technology development, and innovation activities. RTIF was financed by medium-size and large Hungarian companies' mandatory contributions (based on their annual

[4] http://ec.europa.eu/enterprise/policies/innovation/policy/regional-innovation/monitor/

[5] This section is a reworked and extended version of the relevant section in Szalavetz, 2014.

[6] Steps for procedural compliance included the delimitation of the NUTS2 regions; the establishment of regional consulting bodies and the set-up of the necessary institutional structure (e.g. regional development councils and regional development agencies as the managing authorities of SF).

turnover), and this amount was matched each year by an equal amount from the government budget. The Act prescribed that 25 % of RTIF's yearly income should be designated to regional innovation purposes.

Regional innovation agencies (RIAs) were established in the mid-2000s, and were entrusted with the design of regional innovation strategies, linkage building, development and provision of regional innovation related services. RIAs received institutional funding for six years to build up capacities and perform the public benefit activities they were entrusted with.

By the end of the 2000s, RIAs have undergone substantial capacity development: they have accumulated regional innovation system-specific knowledge and relational capital. However, their institutional autonomy was continuously under attack by national-level decision-makers and their competencies and capacity to influence regional innovation strategy implementation diminished substantially over time.

The first milestone in RIAs' roll-back was the gradual hollowing out of the partial regional decentralization of innovation policy. While RIAs could initially influence the content of regionally decentralized innovation support programs and include regional specifics, later the content of the calls were decided upon centrally, by the National Innovation Office (NIO).[7] According to a NIO-official's comment to the author's interview questions, decentralization in the mid 2000s resulted in a multitude of highly diversified programs which were very difficult to administer and monitor. Therefore, RIAs' role was restricted to determining the range of strategic sectors that would receive targeted support in the framework of the regionally decentralized programs. Otherwise, the content of the calls for tender have become practically identical in all regions. "*This made the process of regional innovation policy implementation more efficient and easier to manage and administer.*" (Interview with NIO-official).

An important element of the re-centralization process was the central government's effort to reduce the attractiveness of regionally decentralized programs,[8] and channel regional applicants towards centrally managed Operational Programs (OPs), by prescribing ever stricter conditions to gain support from the former type of programs. The national government gradually withdrew from funding regional innovation undertakings from regionally decentralised sources.[9] As of 2010, RIAs received no more budgetary funding to cover the costs of their public benefit activities. To survive, they reorganized their activity portfolio and shifted to for-profit innovation support activities.

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[7] Up till 2011, the name of the Office was National Office for Research and Technology.

[8] Initially, regionally decentralized programs were more popular than EU co-financed, centrally announced OPs targeting innovation, mainly because the former programs required relatively little co-financing by recipients and advance payment was available. In contrast, the required level of beneficiaries' co-financing in the case of OPs is often above 50 %. Moreover, regionally decentralized programs were much simpler to administer, whereas OP-support constitutes hardly bearable administrative burden for beneficiaries.

[9] The state's withdrawal was manifest primarily in the field of financing innovation purposes from national sources: in 2010, the contribution of the budget to RTIF was only 13.9% of the preceding year's amount, and in 2011 it was 45% of the amount allocated in 2009. (Source: NIH, 2012). However, according to the self-evaluation report published by the National Innovation Office (ibid. p. 27) the objective of support to regional innovation was not achieved. In 2010-2011 no regionally earmarked programs were launched.

The last time calls for proposals were launched under innovation support programs funded from regionally decentralized sources, was in 2009. Subsequently, regionally earmarked grants from EU Structural Funds channelled through OPs have become the only region-specific source of funding innovation activities. Regional OPs can however not be considered a *regionally decentralized* source of funding, since program design is centralized; tender calls are centrally managed; and the selection of supported projects; the monitoring of implementation as well as the evaluation exercises are all under the authority of the central/national level.

Parliamentary elections in 2010 brought about changes in the structure of OPs, which was a further step in the reversal of the regionalization of innovation (and of development). Regional Operational Programs were suspended or rather merged into newly established functional OPs, such as the Science & Innovation Program; the Green Economy Program; the Health Industry Program. These OPs do not follow a territorial logic any more.

Complete subversion of the national innovation system

The traditional institutional instability that characterises the Hungarian innovation and public administration systems was exacerbated following the parliamentary elections in 2010. None of the previous key national or regional organizations could retain its status or autonomy.

Following the elections, the National Office for Research and Technology (renamed to 'National Innovation Office') responsible for managing the allocation of funding from the Research and Technological Innovation Fund (RTIF) was hollowed out, and the majority of the experts fired. Note that similar personnel changes occurred in all other institutions of public administration and of territorial development. Personnel changes involved not only the top management of the previous political cycle but also desk level officials. The implementation of innovation-related programs was frozen: new calls for proposals were not announced for a period of more than a year. The existing contracts (that had been signed under the period of the previous government) underwent a lengthy review process. Payment of contracted support was frozen or waived. Finally, as of 2012, responsibility for the management of funding from RTIF was transferred to the National Development Agency (NDA). Hence, the hollowing out of the National Innovation Office was completed.[10]

The National Development Agency, responsible for managing among others the innovation related OPs and from 2010 also RTIF, became subordinated to a newly established ministry: the Ministry of National Development. Shortly thereafter, it was transferred under the authority of the Prime Minister's Office (government decree 273/2013). Half a year later, the National Development Agency was dissolved (government decree 475/2013). Responsibility for the management and implementation of the individual OPs was dispersed and transferred to various ministries: to the Prime Minister's Office, to the Ministry for National Economy, Ministry of National Development, and Ministry of Human Resources. Responsibility for RTIF was transferred to the Ministry for National Economy.

Regional-level organizations have not remained intact either. Originally in regional ownership (owned by the Regional Development Councils), regional

[10] Responsibility of the hollowed out Office was restricted to managing international relations in the field of technological and research co-operations; analysis of international technological trends; and provision of consultancy services to innovative SMEs.

development agencies became state-owned under the authority of the Ministry of National Development, as of January, 2012. Regional development councils (that originally had substantial albeit over time diminishing autonomy in the allocation of regionally earmarked funding) were dissolved. Regional development agencies changed their status again in January 2014, when the three (NUTS3) counties of the regions became the owners of the agencies. [11] The activities of the regional development agencies were restricted to administering and managing the phasing out regional operational programs related projects.

The institutional chaos caused by the subversion of each element in the development and innovation systems at each spatial level has obviously hindered the absorption of EU Structural Funds.[12] This was the pretext of a further centralization move, implying the creation of the National Development Steering Committee (NDSC). NDSC has four members: it is led by the Prime Minister and its members are the minister for national development, the minister of the economy and the state secretary in charge of the Prime Minister’s Office. Government decree 140/2012 transferred the authority of deciding upon large-scale developmental projects and all innovation related programs (funded from RTIF or from OPs) to NDSC. Note that by that time the Managing Authorities of the OPs have also become subordinated to the ministries steered by NDSC-members.

The most recent change in the system concerns the centralization of innovation related funding in a newly created Office, the Office for National Research, Development and Innovation (ONRDI), subordinated to the Prime Minister’s Office. As of January, 2015, RTIF and all the science and innovation related OPs will be transferred to ONRDI. Moreover, ONRDI will become responsible also for an additional fund: the National Scientific Research Fund (OTKA) – hitherto supervised by the Hungarian Academy of Sciences.

As a result of these changes it is fair to claim that the Hungarian innovation system is characterized by ‘single-actor’ governance: both centralized institutions (NDSC and ONRDI) are controlled by the same person, the prime minister.

This lengthy (albeit far from comprehensive) enumeration of the recent institutional and regulatory changes documents the social mechanism (Hedström–Swedberg, 1998) that has brought about state capture in Hungary.

The key feature of this mechanism is institutional chaos caused by the disruption of previous networks. This facilitated (and for some time concealed) the emergence of a ‘single-actor’ system.

The individual constituents of the identified social mechanism are as follows:

- The firing of existing institutions’ management, employees, and experts. Mass layoffs, beyond a certain threshold, causes hardly reparable damages in the given institution’s network capital, and if this happens in every public organization, without exception, as it did in Hungary, this will result in an unprecedented degree of institutional chaos;

[11] These institutional changes reflect an important ideological turn of the new Hungarian government that envisaged a return to the traditional public administration system with counties (NUTS3 regions) as basic units (previously, in line with the European public administration and territorial development principles, NUTS2 regions were the basic units). As of January 2012 county-level municipalities have been delegated authority and responsibility with respect to territorial development (Act CLXXXIX/2011).

[12] According to the data of the Regional Innovation Scoreboard, 2014, Hungary was found to have the lowest absorption rates of SF funding under RTDI priorities (p. 30), which is explained by institutional instability and frozen / waived programs.

- The over-politicization of public administration, making loyalty the unique condition of civil servants' successful career;
- Dissolution of some of the survived institutions and the creation of new ones;
- Establishment of parallel institutions with no clear delineation of authorities and responsibilities;
- Dispersion of authorities and responsibilities among a several institutions;
- Frequent redistribution of authorities and responsibilities;

The outcome of these processes can be referred to as '*disorganization',* i.e. the disruption of previous networks, leading to institutional chaos. This facilitated

- The centralization of power with respect to decisions that affect private gains.

Note that the concept of disorganization was originally advanced by Blanchard and Kremer (1997) as one of the primary causes of output decline in the period of the transformation recession. Kornai (1995 p. 178-180) used the term 'disruptions in coordination'. According to these authors, transformation brought about the disruption of existing relations, and the shorter or longer periods of institutional void had an adverse impact on economic performance.

Developments in the early 2010s were very similar to the institutional disorganization of the early transformation years, with one important difference: Disorganization in the first transformation years was to some extent spontaneous, driven by transition to a market economy system; by the collapse of the Comecon market and by rapid liberalization. Conversely, disorganization following the 2010 elections was planned and systematic.[13]

Paradoxical as it may seem, institutional instability and centralization have been going hand in hand, reinforcing each other in a 'virtuous circle'. The resulting state capture, described by Magyar (2013) as the post-communist mafia state, produced a historically unique formation. In contrast to the distinction applied by Innes (2014), who distinguished between 'party state capture' (aiming to monopolize political power) and 'corporate state capture' (where private sector stakeholders acquire political power and exercise it for their private gains), Hungary represents a combination of these two ideal types. Those in political power use the state's legislative authority, tax authority, police forces and secret service, as well as the state's capacity to establish and dissolve institutions in a systematic manner to serve their own pecuniary interests.

A detailed analysis of this unique historical formation is beyond the scope of this paper: we are concerned with the ambiguous Europeanization of one single policy sub-system, regional innovation.

The centralization of the territorial development system reached a tipping point just at the time of the official reform of EU Cohesion Policy that prescribed the incorporation of smart specialization in national and regional innovation and development strategies. This coincidence is important, since smart specialization is closely related to the concept of partnership, empowerment of local stakeholders, decentralization and bottom-up approaches – given its strong reliance on local competitive strengths, the identification of which requires the involvement of local stakeholders.

[13] Following the 1998 elections that brought the first victory of Viktor Orbán (he was Prime Minister between 1998 and 2002) one of his sentences became widely quoted in Hungary. He said: You can discard your personal phone directories.

It is therefore obvious that the concentration of power that characterises the Hungarian system contradicts all elements of the smart specialization concept. Nevertheless, procedural compliance has been impeccable: Hungarian RIAs prepared the RIS3 strategies of their regions within a timeframe of four to six weeks: they creatively re-worded the existing innovation strategies along the 'new ideological lines'. RIS3 preparation was exemplary from the point of view of the principle of participative policy-making: draft strategies were disseminated at regional and national stakeholders' websites, and comments were invited. Moreover, workshops were organized in each region with hundreds of invited stakeholders and experts, who were asked to discuss and comment on the draft RIS3 documents. The backside of the coin is that participative policy design (a routinely performed exercise in Hungary) lacks one crucial element: stakeholders' and experts' remarks and proposals are ignored.

While programming (strategy drafting) has been accomplished in full compliance with EU principles and prescriptions, Europeanization can be considered formalistic and cynical, since strategy design has no influence on implementation. The content of the calls for tender is uniform across regions: innovation support is financed from OPs that do not follow a territorial logic.

In summary, the two phases of the policy cycle (policy design and implementation) are completely separated: regionally prepared strategies are irrelevant to the selection of supported beneficiaries. Policy design takes place at the regional level in a Europeanized manner, but implementation is centralised: decision-making authority on the allocation of funding from EU Structural and Cohesion Funds: an amount accounting annually for 3 to 4 % of Hungary's GDP has been appropriated by one single actor.[14]

Against this background, the exemplary procedures of RIS3 related activities such as planning, programming, participative policy design – can be considered only façade regionalism, façade smart specialization.

4. Some additional features of the 'Europeanized' Hungarian regional innovation system

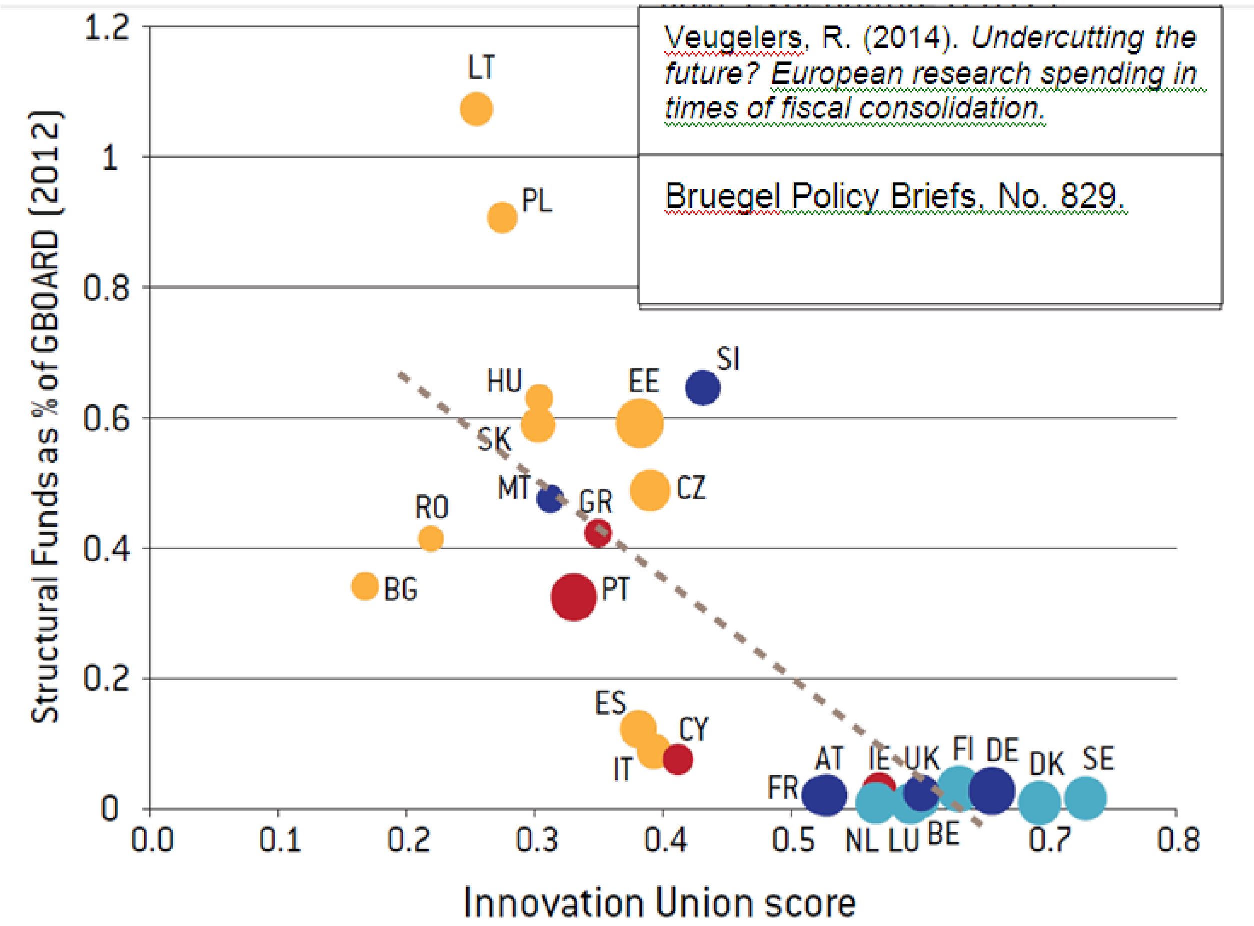
This section will briefly summarize some additional characteristics the Hungarian regional innovation system can be described with. Above and beyond 'façade regionalism' and the prohibitively high level of institutional instability that from time to time destroys previously established linkages and reduces thereby both policy effectiveness and social capital, an important feature of the system is the inclination of the government to substitute EU SF for national funding sources.

The unfavourable consequences of this development can be inferred from Veugelers' (2014) calculations. According to Veugelers, a high share of SF in total public spending on research, technology development, and innovation (RTDI) purposes can be associated with low policy efficiency. Veugelers calculated the relation between 1) the share of SF in total public RTDI outlays (GBAORD) and 2) innovation performance, measured by the Innovation Union Scoreboard, in EU

[14] As a matter of fact, as the term 'mafia' itself suggests, the Hungarian system is not marked by *single*-actor governance, rather by a vulnerable equilibrium of power among members of the syndicate. In the 2010s, Hungarian scholars in political science dedicate a lot of time and resources studying the changing power relations at the top of the system, which recalls the heydays of 'Kremlinology studies'.

Member States. Her calculations resulted in a clear pattern of negative relation (figure 1).

Figure 1



Bubble size = GBAORD as % of government expenditure (2012).
Source: Veugelers, 2013. p. 6

According to Veugelers' data, over the 2007-2013 budgetary period, the average annual share of SF in GBAORD was 57% in Hungary. Obviously, the last years of the period feature higher (~60-62%) and the first years lower shares. However, we hypothesized that in the case of the 'business component' of GBAORD, i.e. in the case of public contributions to business expenditures on R&D (BERD) the weight of SF is becoming prohibitively high.

Since there are no official data for the yearly distribution of the amounts disbursed in the framework of the individual support measures of the Science & Innovation Operational Program,[15] we carried out a data mining and filtering exercise to find out more about the weight of SF in total public support to corporate R&D. We selected four support measures from the Science & Innovation Program of the New Széchenyi Plan (Hungary's national development program) that targeted business

[15] The website of the New Széchenyi Plan publishes the lists of the selected beneficiaries in a HTML format in alphabetic order (not according to the date of the decision on support).

enterprises' R&D undertakings. We calculated the yearly distribution of the amount of contracted support to be allocated in the form of direct, non-refundable grants.

We focused only on measures that fostered business enterprises' research, development and innovation undertakings. Note that the Science & Innovation Program also comprises business enterprises-related support measures that target the "T" component of RTDI: they co-finance companies' investment in upgrading their production equipment. Out of the amount disbursed from the Science and Innovation OP directly addressing business enterprises' RTDI undertakings,[16] the 'T' component accounts for 24 %.

The selected support measures were as follows:

1. Support to market-oriented R&D activities;
2. Support to business enterprises' complex innovative undertakings;
3. Support to accredited innovation cluster members' complex innovation undertakings;
4. Support to accredited innovation clusters' joint innovation activities;

We contrasted the amount of SF-support (from the above-listed measures) with the total amount of budgetary contributions to BERD, and we also related the calculated sum of SF-support to BERD itself. We applied one year time-lag, i.e. we contrasted 2012 BERD data with decisions on SF-funded support in 2011.[17]

The amount decided upon[18] in the framework of the four above-listed SF-funded support measures was € 63.9 million in 2011. Hence, the share of SF-funding within total BERD (in 2012) was 7.7 % and within the total public funding of BERD (2012): 49.5 %. Considering the rapid increase of the SF-funding (in 2011: € 63.9 million; in 2012: € 269 million; in 2013: € 251.9 million), and the much slower increase of BERD (according to preliminary data BERD increased by 22.2% in 2013), two puzzling conclusions emerge. Firstly, the allocations from SF to business enterprises' R&D investments (the investment component of BERD) exceed their reported R&D investments. Although funding may cover enterprises' R&D related costs as well (e.g. the wages of newly hired researchers), this seriously questions the effectiveness of support, or, at least, it points to insufficient behavioral additionality. Moreover, it suggests that business enterprises are over-dependent on SF-funded support in Hungary. Secondly, the share of SF-funding within public contribution to BERD is converging to 100 % (!).

[16] The Science & Innovation OP includes various other support measures that do not directly address business enterprises.

[17] Note that the website of the New Széchenyi Plan publishes the lists of supported beneficiaries since 2011.

[18] Note that the website of the New Széchényi Plan lists the amounts that had been *decided upon to be allocated* to the individual beneficiaries. The amount *contracted* is usually smaller, and again, the amount *disbursed* to the recipients is smaller than the contracted amount. The website of the New Széchenyi Plan contains summary statistics about the amounts decided upon, contracted and disbursed with respect to our surveyed four policy measures. However, the statistical data concern only total amounts (decided upon, contracted and disbursed) over the period between 2011 and 2014. They are as follows: amount decided upon: € 580.5 million; amount contracted € 572.2 million; amount disbursed: € 371.7 million (Source: own calculations from the summary statistics published at the website of Hungary's New Széchenyi Plan; €1 = HUF 300).

Table 1

Summary data of calculations

		2011	2012	2013
1	BERD (€ million)	752.4	824.7	982.3**
2	Investment component of BERD (€ million)	91.4	124.2	180.7
3	Public contribution to BERD (€)	109.3	129.2	n.a.
4	SF* amount (€ million)	63.9	269.7	251.9
5	SF* share in public contribution to BERD (%) (a)	n.a.	49.5	n.a.
6	SF* share in BERD (%) (a)	n.a.	7.7	27.4

Source: Central Statistical Office data for rows 1, 2 and 3; author's calculations for rows 4, 5 and 6.
* = SF denotes the total amount of support decided upon in the given year, in the framework of the four above listed support measures of the Science & Innovation Operational Program
** = preliminary data
a = one year time-lag is applied

These calculations need to be refined though, since the amount actually disbursed to recipients is lower than the one decided upon. In order to control for the gap between decisions and actual disbursements, we applied the same percentage as in the case of the summary statistics (see footnote 17), where the total amount disbursed was 64 % of the total amount decided to be allocated in the framework of the surveyed four support measures. The estimated values of the indicators are summarized in table 2.

Table 2

The share of SF in BERD and in the public contributions to BERD – controlled for *disbursed* payments from SF

		2011	2012	2013
1	BERD (€ million)	752.4	824.7	982.3**
2	Investment component of BERD (€ million)	91.4	124.2	180.7
3	Public contribution to BERD (€)	109.3	129.2	n.a.
4	SF* amount (€ million)	40.9	172.2	161.2
5	SF* share in public contribution to BERD (%) (a)	n.a.	31.7	n.a.
6	SF* share in BERD (%) (a)	n.a.	5	17.5

Source: as in table 1
* = SF denotes the estimated amount of support disbursed in the given year, in the framework of the four above listed support measures of the Science & Innovation Operational Program
** = preliminary data
a = one year time-lag is applied

The claim that excessive reliance on SF-based financing has an adverse impact on the efficiency of policy implementation derives from the recognition of a trade-off between SF-absorption and policy effectiveness. Hungary – and this is another key feature of its innovation system's attitude towards the EU in general and Europeanization in particular – has clearly been prioritizing absorption over policy effectiveness. The priority of SF-absorption is also reflected by the fact that innovation support is allocated practically exclusively in the form of direct non-refundable cash transfers.[19]

5. Conclusions and policy implications

In this paper we argued that although

a) Hungary has successfully set up all the necessary institutions (policy intermediaries; financing, administrative and management agencies at various spatial levels; bridging organisations, etc.) the peers of which exist in developed economies with high-performing national and regional innovation systems (Havas, 2007);
b) these institutions have gone through and benefitted from external and internal institutional capacity development, and have effectively enhanced their competencies in planning and programming, and their network capital;
c) Hungary complies to the procedural conditionalities listed in the European regulatory and legislative documents,

European institutions and procedures do not seem to be sufficient to prevent a systemic failure caused by policy opportunism. Instead of substantive Europeanization, the new regional development and innovation governance system marks a return to a hierarchical, paternalistic redistribution and subsidy allocation that characterized both the socialist era and the early transition years (till 2004-2005). It represents a formal break with the half-hearted attempts that characterized the second half of the 2000s, to switch to partnership-based regionalization. Observers could recall the telling metaphor[20] of a 'ferry-boat country', used by Endre Ady, a great Hungarian poet and political essay-writer of the early 20th century. Ady advanced this metaphor to describe the frequent reform reversals of the Hungarian politics. One century later, the metaphor still applies to the Hungarian reforms, in our case to the regionalization of innovation.

Hence, it can be concluded that the transposition of EU directives in the national legislation does not automatically fulfill the *intermediate* objective of Europeanization: good governance. Neither does it necessarily accomplish the *ultimate* objective of Europeanization (in this case with respect to territorial

[19] A detailed summary of the outcome indicators used as proxies in analyses of the efficiency of the Hungarian innovation system and of the impact of SF-financed developmental expenditures is beyond the scope of this paper. Only three remarks are mentioned to illustrate the prevalence of poor policy efficiency at both the national and the regional levels. 1) Although according to the classification of the EU's Regional Innovation Scoreboard (2014), Hungary is a 'moderate innovator', three of its seven regions are modest innovators. 2) Three regions (one of them is a moderate innovator) were among the bottom twenty regions of the EU, measured by GDP per capita in 2011 (source: Eurostat). 3) Ranked by the Regional Competitiveness Index (RCI 2013), three Hungarian regions are at the positions between 218–220th out of 262 European regions, and a fourth region is the 231st.

[20] "... [like a] ferry-boat country [Hungary] sails from the East to the West, but more likely back to the East". Ady, E. (1905) Notes on an Unknown Corvin Codex. Translation by Berend T.I. (2005). What is Central and Eastern Europe? *European Journal of Social Theory, 8*(4), 401-416.

development): the reinforcement of the regions' knowledge-based, competitive capacities that enable and enhance their catching-up.

Regarding this ultimate objective, it needs to be reiterated here that Cohesion Policy is not a simple *redistributive mechanism* of the European Union: it is rather a *development policy* that envisages balanced territorial development (Mendez et al., 2011), simply because excessive territorial disparities have an adverse effect on the competitiveness of the EU as a whole. Hence, the blocking of Member States' policy opportunism and their abuse of the opportunities deriving from their access to substantial resources from EU SF is an unquestionable *imperative*: the benign and neglectful approach claiming that some NMS can hardly profit from the opportunities of membership, hence their catching-up will be slower than the average – is not acceptable. The issue at stake is *European competitiveness*: if some Member States do not spend European taxpayers' money responsibly, European competitiveness is jeopardized.

With this we turn to the far-reaching policy implication of our findings, namely that the principle of subsidiarity needs to be revisited – at least with respect to Cohesion Policy. This principle stipulates that in order to maintain the democratic legitimacy of the European Union, policies need to be conceived and applied (decisions need to be taken) as closely to citizens and possible. Although this principle is closely associated with multi-level governance, since problems are usually inter-related and concern multiple territorial levels, hence the representatives of different policy levels (and fields) have to interact and collaborate with each other – in reality, only the 'delegation to lower levels' aspect of subsidiarity is taken seriously. The 'opposite direction': the imperative of collaboration and consensus building (in this case on cohesion related issues) between Member States and the European Union is subject to Member States' decision. Member States' willingness and commitment to collaborate are based on their discretionary interpretation of the '*shared competence*' principle (Faludi, 2013).

These interpretations are heterogeneous, since the formulation of subsidiarity is vague and subjective (Barton, 2014).[21] As Faludi (ibid., p. 1595) bluntly explains, Member States can even adopt the position that the EU – irrespective of its provision of finance – should not get involved in regional development related matters at all.

In a similar vein, the partnership principle, relying on the recognized mutual interdependence of actors at different hierarchical tiers, is enforced only 'downwards', i.e. in terms of the EU's obligation to recognize the lower levels' authority, linked to the decentralized responsibilities. The opposite direction, i.e. the lower levels' obligation to *deliberate* with the higher level and seriously consider its position has never been coveted in the Member State – EU relations, – mainly because it was implicitly assumed that the lower levels (the beneficiaries of the dedicated resources) share the European vision, and adhere to the fundamental principles of the Cohesion Policy.

Hence, the EU is not prepared to impede Member States' opportunistic behavior. Similarly to the application of the principle of subsidiarity, where the vague formulation of the concept, together with its overly politicized character prompts the Court of Justice of the European Union to take a minimalist approach, and investigate only whether *procedural subsidiarity* has been complied with (Barton, 2014), as far as

[21] EU action is permitted only if and in so far as the Member States [either at central or at regional or local levels] cannot fulfill the given objective 'sufficiently'. At the same time, the Treaty on European Union states that the Union may act if, in doing so, the objective can 'be better achieved'.

Cohesion Policy is concerned, the European Commission's role, during its negotiations over Member States' program proposals, is more or less restricted to ensuring compliance to the formal, administrative requirements.

In order to improve the effectiveness of Cohesion Policy, the European Commission needs to be granted a more proactive role in the design, implementation monitoring and evaluation of Member States' national and regional development policies. In line with the substance of the '*shared competence'* concept, more authority needs to be assigned to the supra-national level, so that the European Commission could enforce the alignment of Member States' regional development policies with European development objectives.[22]

[22] The first steps have already been taken to reconsider the governance model of Cohesion Policy, which, obviously, predicts changes in its operational rules as well. As summarized by Mendez et al. (2011), in contrast to the redistributive conceptualization of Cohesion Policy that proposes a minimum involvement of the EU (with a strong emphasis on bottom up policies and Member States' autonomy), the developmental (in the referred authors' wording: 'place-based') conceptualization calls for a different governance model. The emphasis here is on a *contractual relation* between the center (the EU) and its "constituent units [the Member States and the regions] to ensure increased focus on performance and greater accountability over outcomes." (p. 28).
The policy tools permitting increased central involvement in the implementation of regional development programs may be borrowed from the IMF (e.g. sequencing, surveillance and conditionality), as it happened in the case of the EU–IMF financial assistance to crisis-ridden EU Member States (Pisani-Ferri et al., 2013).

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