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Regional Innovation Policy in Hungary – The Regionalism Façade, or the Limitations of Achieving Good Governance through Europeanization

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Abstract: This paper surveys the 'Europeanization' of Hungarian regional innovation policy. We argue that the transposition of EU directives in 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 regions' knowledge-based, competitive capacities in order to enable and enhance catching-up. Though Hungary complies with the procedural conditionalities listed in the European regulatory and legislative documents, procedural Europeanization could not prevent a systemic failure caused by policy opportunism. The paper describes the social mechanism that has brought about state capture within the public policy field of territorial development. We illustrate that instead of substantive Europeanization, a system of "single-actor" governance has been created. The concept of smart specialization in territorial development was simply incorporated into 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 however features 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 Classification Numbers: O38, O43, R58

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 practice" in public policy through systematic policy transfer based on peer review and benchmarking members' policy sub-systems. Furthermore, the EU promotes Member State institutional capacity development and assists NMS' thereby in adopting EU norms and implementing EU provisions (Radaelli, 2000). Moreover, the EU enforces compliance with its legislation, rules and norms also after accession 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, claiming that 'conditional membership' was a much more effective incentive driving transforming economies' alignment with EU rules and norms, than post-accession conditionalities.[1] Some authors anticipated that NMS stakeholders would gradually internalize EU norms and principles and, through learning-by-doing and public policy practice, would get closer to the ideal model of open, inclusive and participatory policy-making (Dabrowski, 2013). However, there were numerous gloomy predictions (surveyed by Dabrowski, 2013) regarding NMS's shallow integration. Shallow integration refers to NMS's formalistic adaptation to EU rules and norms, driven by actors' opportunistic responses to incentives (Bachtler et al., 2014).

Pessimism with respect to successful policy transfer was explained with NMS's difficulties in overcoming their adverse institutional and cultural legacies, such as central planning, centralized decision-making, and low commitment to collaboration and participatory democracy (Muraközy, 2009; Sajó, 2008). The low overall stock of social capital: the low level of social trust; distrust in public institutions (Csepeli–Prazsák, 2011; Letki–Evans, 2005); political biases and vested interests (Pálné Kovács, 2009); the limited ability of the EU to block Member States' reform reversals and outright abuses of the opportunities membership provides to them were also mentioned (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. 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, 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 non-committed reformers attempt to emulate European policy practice in a voluntary manner, the transposition of rules, institutions and procedures will necessarily be subject to moral hazard: actor compliance will only be formalistic. They will set up the necessary institutions and adopt the prescribed regulations without focusing on enforcement, or they will simply hollow out the transferred institutions and procedures.

This paper provides a case study to illustrate that imposed policy transfer is insufficient for achieving the behavioural transformation necessary for good governance. At most, it brings about NMS procedural compliance with EU requirements. Hence, the ultimate objectives of policy transfer: cohesion and catching-up, will not necessarily be met.

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

Note that with the reform of EU cohesion policy, European regional development and regional innovation policies themselves underwent substantial institutional and procedural change (Barca, 2009). The enhanced emphasis on competitiveness and smart growth among cohesion policy objectives encouraged the EU to adopt a directive requiring the Member States draft research and innovation strategies for smart specialization (RIS3)[2] at regional (and also 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, and intra- and inter-regional linkages. Hence, appropriate policies are tailored to the regional context. Policy design needs bottom-up, participatory approaches (empowerment of local stakeholders, leveraging of region-specific knowledge), as well as mechanisms that foster policy learning: feedback 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 across representatives at different administrative levels.

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

The paper is structured in five sections. Section 2 briefly summarizes the related literature. Section 3 reviews the recent changes in the governance of the regional innovation system in Hungary. Section 4 evaluates 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 addresses both the concept of Europeanization in general, and more specifically the Europeanization of CEE economies' regional development and innovation systems. It is related to broad conceptual issues: whether decentralization represents a condition of good governance (Pálné Kovács, 2014) and whether the 'European' approach to national and regional innovation promotion is the optimal solution to be emulated; as well as specific conceptual issues: the regionalization of innovation systems and innovation policies (Cooke et al., 2011; see Gál, 2013 for the Hungarian case); and smart specialization (McCann–Ortega-Argilés, 2013; 2014).

Due to space limitations, our review of the literature is restricted to the line of research that is most closely related to the focus of this paper: to the Europeanization of CEE, with a special emphasis on the Europeanization of regional development.

Europeanization refers to the convergence of institutions and policy practices toward a 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 into 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 a participative, multi-level governance of place-based regional development. This ensures the adequate prioritization of policy efforts to support (the framework conditions of) knowledge generation, diffusion and use.

Regarding the Europeanization of CEE regional development systems, Bruszt, (2008) argues that EU policy transfer was indispensable, since these countries were more or less lacking territorial governance systems. Since Structural and Cohesion Funds are allocated on a regional basis most of the acceding countries had to create the relevant institutions from scratch. Stakeholders had to accumulate competencies in planning and programming, i.e. in the procedural requirements for accessing EU funding. The EU's technical assistance has in fact substantially contributed to regional actors' competence accumulation: 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 central government's efforts to retract the decentralized authorities have gradually weakened the regional structures. The emerging system of 'Europeanized regional development' was described as 'regionalism without regions', marked by parallelisms in (duplications of) the administrative structure and weak and powerless regional actors with little legitimacy (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 over time, actors in those countries had increasingly internalized the transferred norms. Hence, the process of Europeanization was gradually driven also by actors' socialization with EU principles (Baun–Marek, 2008; Dabrowski, 2012; 2013; Scherpereel, 2010). Sherpereel (2010), for example argues – drawing on a large number of interviews with national and regional politicians and bureaucrats engaged in programming, implementation and the management of operational programs – that over time, EU practices, discourses and procedures have become increasingly deeply embedded in domestic politics: they are shaping the operational logic of regional bodies. He contrasts this finding with a near consensus view of the scholarship on Europeanization in CEE that claims that EU influence declines after accession.

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

Mungiu-Pippidi (2014) advanced a more restrained thesis than the above mentioned scholars on Europe's 'transformative power' claiming that the EU has effectively promoted democracy in NMS's 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.

Some Baltic country scholars analyze the Europeanization of innovation policies in NMS's from a different perspective. Karo (2011), Karo–Kattel (2010) and Suurna–Kattel (2010) contend that EU policy transfer has 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 has been ambiguous, since it exacerbates 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. These 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-making, and have not contributed to aligning the three stages in the policy cycle (policy design, implementation and evaluation): these have become more fragmented than ever.

In summary, Mungiu-Pippidi's (2014) thesis seems convincing in a somewhat rephrased form: the EU has effectively promoted institution building and institutional capacity development in NMS's regional innovation systems, but failed to 'transfer' good governance.

Drawing on these conceptual and empirical findings, we set out to explore the case of Europeanization in 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.[3] This project envisaged the setting up an Internet-based 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'[4]

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. despite the establishment of the relevant territorial governance structures and institutions, including the delineation of the NUTS2 regions; the establishment of regional consulting bodies and the setting up of regional development councils and regional development agencies as the managing authorities of SF, 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 the institutionalization of a regional innovation governance system has gone through similar stages, including:

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

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

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-sized and large Hungarian companies' mandatory contributions (based on their annual 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 dedicated 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 the 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 had undergone substantial capacity development. They had accumulated regional innovation system-specific knowledge and network 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).[5] According to one NIO-official's response, decentralization in the mid-2000s resulted in a multitude of highly diversified programs that were very difficult to administer and monitor. Therefore, the RIAs' role was restricted to determining the range of strategic sectors that were eligible for targeted support in the framework of the regionally decentralized programs. Beyond this, the content of the calls for tender became 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[6] by prescribing ever stricter conditions of support. Regional applicants were rather 'directed' towards centrally managed Operational Programs (OPs). The national government gradually withdrew from the funding of regional innovation undertakings from regionally decentralised sources.[7] 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.

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 for funding innovation activities. Regional OPs cannot however 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 and the evaluation exercises are all under the authority of the central/national level of government.

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 system 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 the '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 organizations of the 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.[8]

The National Development Agency, responsible for managing among others the innovation related OPs, and as of 2010, also the RTIF, became subordinated to a newly established ministry: the Ministry of National Development. Shortly thereafter, it was placed 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, the Ministry of National Development, and the Ministry of Human Resources. Responsibility for the RTIF was transferred to the Ministry for National Economy.

Regional-level organizations have not remained intact either. Originally under regional ownership (responsible to the Regional Development Councils), regional development agencies became state-owned and were placed 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.[9] The activities of the regional development agencies were restricted to administering and managing the phasing out of the regional operational programs and 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. According to the data of the Regional Innovation Scoreboard, 2014, Hungary was found to have the lowest absorption rates of SF funding under research, technology development, and innovation RTDI priorities (p. 30). This was the pretext for further centralization: the creation of the National Development Steering Committee (NDSC). The NDSC has four members: led by the Prime Minister, 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 for deciding upon large-scale developmental projects and all innovation related programs (funded from RTIF or from OPs) to the NDSC. Note that by that time the Managing Authorities of the OPs had 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, the RTIF and all the science and innovation related OPs will be transferred to the ONRDI. Moreover, the 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 consequence of these changes, it is fair to claim that the Hungarian innovation system is characterized by highly-centralized, 'single-actor' governance: both the NDSC and the ONRDI are controlled (or supervised) 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 the institutional chaos that facilitated (and for some time concealed) the emergence of a 'single-actor' system. Institutional chaos was brought about by:

- The firing of existing institutions' management, employees, and experts. Beyond a certain threshold, mass layoffs cause irreparable damage in a given institution's network capital. If mass layoffs afflict every single public organization, without exception, as happened in Hungary, this will result in an unprecedented degree of institutional chaos;
- The dissolution of some of the institutions that survived, and the creation of new ones;
- The establishment of parallel institutions with no clear delineation of authority and responsibilities;
- The dispersion of authority and responsibilities across several institutions;
- The frequent redistribution of authority and responsibilities.

Institutional chaos was coupled with the over-politicization of public administration, making loyalty the unique condition of a civil servant's successful career. The outcome of these processes can be referred to as 'disorganization', i.e. the disruption of pre-existing networks. This facilitated the centralization of power with respect to decisions that affect private gains: especially with respect to decisions about the allocation of support financed from Structural Funds.

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 used the term 'disruptions in coordination' (1995 p. 178-180). According to these authors, transformation brought about the disruption of existing relations. Shorter or longer periods of institutional void had a less or more adverse impact on economic performance.

Developments in the early 2010s were very similar to the 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.[10]

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 an historically unique formation. In contrast to 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. The Hungarian model transcends previous definitions, according to which state capture denotes third party (firms' or individuals') bribery to influence the forms and content of laws and regulations and government decrees (Anderson–Gray, 2006; Gray et al., 2004). In the 'Hungarian model', a group of 'political entrepreneurs' (Magyar, 2013) captures political power (gets inside), and uses the state's legislative authority, tax authority, police forces and secret service, and the state's capacity to establish and dissolve institutions in a systematic manner to gain private rents.

A detailed analysis of this unique historical formation is beyond the scope of this paper. We are concerned here 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. Smart specialization is closely related to the concept of partnership, empowerment of local stakeholders, decentralization and bottom-up approaches.

It is therefore obvious that the concentration of power that characterises the Hungarian system contradicts all elements of the smart specialization concept. Nevertheless, Hungary's 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 their previously drafted 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 on regional and national stakeholder 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 flipside of the coin is that stakeholders' and experts' remarks and proposals were 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 applications is uniform across regions: innovation support is financed from OPs that do not follow a territorial logic.

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 over 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.[11]

Against this background, the exemplary procedures of RIS3 related activities such as planning, programming and participatory policy design – can be considered as a kind of "façade regionalism", or "façade smart specialization".

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

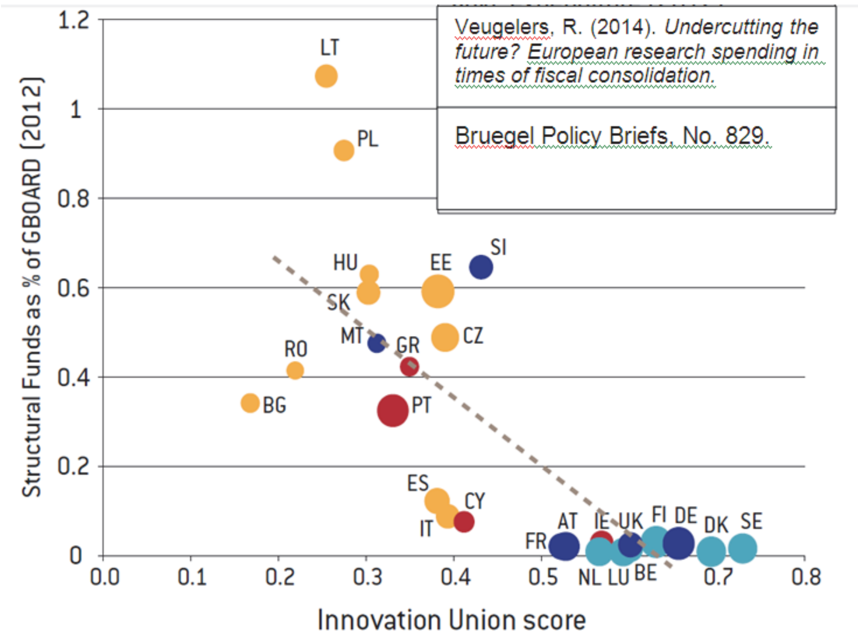
This section will briefly summarize some additional characteristics of the Hungarian regional innovation system. Above and beyond 'façade regionalism' and the prohibitively high level of institutional instability that, from time to time, destroys previously established linkages and thus reduces both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

The unfavorable consequences of this development can be inferred from Veugelers' (2014) calculations. According to Veugelers, a high share of SFs in total public spending on RTDI purposes can be associated with low policy efficiency. Veugelers calculated the relation between 1) the share of SFs in total public RTDI outlays (GBAORD) and 2) innovation performance, measured by the Innovation Union Scoreboard, in EU Member States. Her calculations resulted in a clear pattern of negative relation (figure 1).[12]

According to Veugelers' data, over the 2007-2013 budgetary period, the average annual share of SFs 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 the SFs 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,[13] we carried out a data mining and filtering exercise to find out more about the weight of SFs in total public support to corporate R&D. We selected four support measures from the Science & Innovation Program of the

Figure 1. The relation between the share of Structural Funds in total public spending on RTDI and innovation performance, measured by the Innovation Union Scoreboard



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

New Széchenyi Plan (Hungary's national development program) that targeted business 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 enterprise related support measures that target the "T" component of RTDI: they co-finance company investment in upgrading their production equipment. Out of the amount disbursed from the Science and Innovation OP directly addressing business enterprises' RTDI undertakings,[14] the 'T' component accounts for 24% (own calculations).

The selected support measures were as follows:

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

We examined the share of SF-support (from the above-listed measures) in the total amount of budgetary contributions to BERD, and we also correlated the calculated sum of SF-support with BERD itself. We applied a one-year time-lag, i.e. we contrasted 2012 BERD data with decisions on SF-funded support in 2011, since actual disbursements usually take place at least one year following the decision on support.[15]

The total amount decided upon in the framework of the four above-listed support measures was €63.9 million in 2011, €269.7 million in 2012 and €252.9 million in 2013.

The amount contracted is usually smaller than the one announced when the list of beneficiaries is disclosed. The amount finally disbursed to recipients is again, usually smaller than the contracted amount. The website of the New Széchenyi Plan contains summary statistics about the amounts decided upon, contracted and disbursed in the framework of the surveyed four policy measures. However, the available data refer to total amounts (decided upon, contracted and disbursed) over the period between 2011 and 2014. Accordingly, the amount finally disbursed to recipients was 64 % of the amount that was initially disclosed.[16]

In order to control for the gap between the amounts announced and the actual disbursements, we estimated the yearly disbursement rates being 64% of the amounts announced.

Table 1 summarises our calculations. The table makes it clear that SF-funding (disbursed in the framework of the four surveyed measures) increased very rapidly during the surveyed period: much more rapidly than BERD itself. Accordingly, the shares of (disbursed) SF-funding within total BERD were 5 % in 2012 and 17.5 % in 2013.

Table 1. 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 (€ million)	109.3	129.2	187
4	SF* amount (€ million)	40.9	172.2	161.2
5	SF* share in public contribution to BERD (%) (a)	n.a.	31.7	92.1
6	SF* share in BERD (%) (a)	n.a.	5	17.5

Source: Central Statistical Office data for rows 1, 2 and 3; author's calculations for rows 4, 5 and 6.
* = 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
a = a one-year time-lag is applied

Relating the amounts of SF-funding to selected BERD-specific indicators, two puzzling conclusions emerge. First, business enterprises' reported R&D investment (the investment component of BERD) was nearly fully covered by SF-allocations in 2013 (one year time-lag is applied). Although SF-funding from the surveyed policy measures may cover not only R&D investments, but also enterprises' R&D

related costs (e.g. the wages of newly-hired researchers), this seriously questions the effectiveness of support, or, at least, it points to insufficient behavioural additionality. Moreover, it suggests that business enterprises are over-dependent on SF-funded support in Hungary. Second, the share of SF-funding within the public contribution to BERD is converging on 100% (!).

The claim that excessive reliance on SF-based financing has an adverse impact on policy effectiveness derives from the recognition of a trade-off between SF-absorption and policy effectiveness. Hungary – and this is another key feature of political attitudes toward 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.[17]

Table 2. Research and technology indicators: Hungary and the EU27 compared

INDICATORS	**Hungary**	**EU27**	**Year**	**Source**	**Performance relative to EU27 (%)**
Business R&D (% GDP)	0.76	1.29	2011	Eurostat	58.9
Government R&D (% GDP)	0.19	0.25	2011	Eurostat	76.0
Higher Education R&D (% GDP)	0.25	0.48	2011	Eurostat	52.1
EPO patent applications (per mln population)	17.90	110.48	2009	Eurostat	16.2
Employment in medium-high & high-tech manufacturing (% of total employment)	8.30	5.60	2012	Eurostat	148.2
Employment in knowledge-intensive services (% of total employment)	35.00	39.00	2012	Eurostat	89.7
Total R&D personnel (% of active population) - all sectors	1.29	1.66	2011	Eurostat	77.7
BUSINESS INNOVATION INDICATORS					
Technological (product or process) innovators (% of all SMEs)	16.76	37.85	2010	MERIT-CIS	44.3
Non-technological (marketing or organizational) innovators (% of all SMEs)	22.36	39.83	2010	MERIT-CIS	56.1
Innovative SMEs collaborating with others (% of all SMEs)	6.68	8.89	2010	MERIT-CIS	75.1
SMEs innovating in-house (% of all SMEs)	4.06	22.63	2010	MERIT-CIS	17.9
Share of turnover of newly introduced innovations new to the firm	4.47	8.71	2010	MERIT-CIS	51.4

Source: Data were provided by Nordine Es-Sadki from UNU MERIT

Table 2 presents national-level performance indicators used as proxies in analyses of the efficiency of the Hungarian innovation system. Although a detailed analysis of these performance indicators is beyond the scope of this paper, some remarks are worth noting. The share of innovative SMEs is particularly low. In light of the fact that a relatively large share of total funding is devoted to supporting business enterprises' RTDI efforts, this reflects a thought-provoking mismatch between policy focus and outcome.

Regarding regional innovation performance, it should be noted that 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. Moreover, ranked by the Regional Competitiveness Index, four Hungarian regions are ranked among the least competitive European regions: they are 218th, 219th, 220th and 231st respectively, out of 262 European regions (Annoni–Dijkstra, 2013).

5. Conclusions and policy implications

In this paper we have 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.) whose peers exist in developed economies with high-performing national and regional innovation systems (Havas, 2007);

b) although 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) and although Hungary complies with the procedural conditionalities listed in the European regulatory and legislative documents,

d) European institutions and procedures do not seem to be sufficient to prevent the 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 system, similar to the one that characterized both the socialist era and the early transition years (up to 2004-2005). The new system represents a formal break from the half-hearted attempts that characterized the second half of the 2000s to switch to a partnership-based participatory form of regionalization. These developments recall the telling metaphor of a 'ferry-boat country',[18] 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 Hungarian politics. One century later, the metaphor still applies to Hungarian reforms, in this case to the regionalization of innovation policy.

Hence the transposition of EU directives into national legislation did not automatically fulfill the intermediate objective of Europeanization: good governance. Neither did it accomplish the ultimate objective of the Europeanization of territorial development: i.e. a reinforcement of the regions' knowledge-based, competitive capacities, thereby enabling and enhancing the catching-up processes.

Considering that Cohesion Policy is not a simple redistributive mechanism of the European Union, but it is rather a development policy that envisions balanced territorial development[19] (Mendez et al., 2011), it seems self-evident that Member State policy opportunism must be blocked.

A benign and neglectful approach to Member State abuse of the opportunities deriving from their access to substantial resources from the EU SFs is unacceptable. The assertion that some NMS can only profit from the opportunities of membership with great difficulty, hence their catching-up will be slower than the average is an oversimplified claim. The issue at stake is European competitiveness: if some Member States do not spend European taxpayers' money responsibly, European competitiveness is jeopardized. Consequently, EU intervention is an undeniable imperative.

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) in ways that are as responsive to citizen interests as possible, ideally at significantly lower levels of governance than currently the case. This principle is closely associated with multi-level governance, since the problems policy attempts to address are usually inter-related and concern multiple territorial levels. Hence, the representatives of different policy levels (and fields) must interact and collaborate with each other. In reality however, only the 'delegation to lower levels' aspect of subsidiarity is taken seriously. The 'opposite direction': the imperative of collaboration and consensus building between Member States and the European Union, is subject to Member States' interpretation of the 'shared competence' principle (Faludi, 2013).

These interpretations vary across Member States, since the formulation of subsidiarity is vague and subjective (Barton, 2014).[20] As Faludi (ibid., p. 1595) bluntly explains, Member States can even adopt the position that the EU 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 levels, is only enforced 'downwards', i.e. in terms of the EU's obligation to recognize lower levels of authority, linked to decentralized responsibilities. Within Member State – EU relations the opposite direction, i.e. the Member State obligation to seriously consider EU position, has never been coveted, mainly because it was implicitly assumed that Member States share the European vision and adhere to the fundamental principles of Cohesion Policy.

Hence, the EU is not prepared to intervene in Member States' opportunistic behaviors. Just as with 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 Cohesion Policy is concerned, the European Commission's role, during its negotiations on

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 can enforce the alignment of Member States' regional development policies with European development objectives.[21]

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Notes

[1] See e.g. Dimitrova, 2010; Falkner, 2013; Mungiu-Pippidi, 2014; Schimmelpfennig–Sedelmeier, 2008.

[2] Strategies should be knowledge-based: the fostering of the region's innovative capacities should constitute the main guideline of the strategic documents. They should be tailor-made: 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.

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

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

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

[6] 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 beneficiary co-financing in the case of OPs was often (and remains) above 50%. Moreover, regionally decentralized programs were much simpler to administer, whereas OP-support constitutes an almost unbearable administrative burden for beneficiaries.

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

[8] 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.

[9] These institutional changes reflect an important ideological turn for 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).

[10] 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.

[11] As a matter of fact, as the term 'mafia' itself suggests, instead of single-actor governance, the Hungarian system is characterized rather by a fragile equilibrium of power among members of the syndicate. In the 2010s, Hungarian political science scholars dedicated substantial time and resources to studying the changing power relations at the top of the system, recalling the heyday of 'Kremlinology studies'.

[12] Note that Veugelers demonstrates the presence of a negative correlation between the two indicators, but no causal relationship. Moreover, the fact that countries with relatively small national R&D budgets have to rely more heavily on SFs may also distort the picture. Nevertheless, the negative correlation between innovation policy effectiveness and excessive reliance on SF funding in total R&D financing suggests the prevalence of a political attitude according to which SF funding is considered 'free money'. This recalls the Dutch disease conceptualization of EU financial transfers (see e.g. Bradley, 2008).

[13] 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).

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

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

[16] The amounts (decided upon, contracted and disbursed) over the period between 2011 and 2014 were as follows: €580.5 million; €572.2 million; and €371.7 million, respectively. (Source: own calculations from the summary statistics published on the website of Hungary's New Széchenyi Plan; €1 = HUF 300).

[17] In advanced economies a fair share of innovation support takes the form of: preferential loans, loan guarantee programs, co-funding of venture capital companies, innovation vouchers that can be used for innovation management services, intellectual property right specific services, innovative public

procurement, demonstration projects, etc. (See e.g. the series of OECD Reviews of Innovation Policy; Borrás–Edquist, 2013).

[18] "... [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*, Vol. 8 No. 4, 401-416.

[19] Excessive territorial disparities have an adverse effect on EU competitiveness as a whole.

[20] EU action is permitted only if and insofar 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'.

[21] The first steps have already been taken to reconsider the governance model of Cohesion Policy, which, obviously, also predicts changes in its operational rules. As summarized by Mendez et al. (2011), in contrast to the redistributive conceptualization of Cohesion Policy that proposes a minimal involvement of the EU (with a strong emphasis on bottom up policies and Member State autonomy), the developmental conceptualization of Cohesion Policy 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 supra-national involvement in the implementation of regional development programs may be borrowed from the IMF (e.g. sequencing, surveillance and conditionality), as happened in the case of EU–IMF financial assistance to crisis-ridden EU Member States (Pisani-Ferri et al., 2013).

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