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Derangement or Development? Political Economy of EU Structural Funds Allocation in New Member States- Insights from the Hungarian Case

Judit Kalman

Center for Policy Studies, Central European University
Institute of Economics, Hungarian Academy of Sciences

judit.kalman2@gmail.com

kalman@econ.core.hu

Non-Technical Summary

This research provides some insights on the interactions between political and economic aspects in Hungarian development policy and multi-level government financing mechanisms. By looking at the allocation of European Union Structural Funds (EU SF) in Hungary from 2004 to 2008, this project addresses if and how such development programs and financing mechanisms are influenced by *political and institutional/administrative factors*. The theoretical framework of the political economy of intergovernmental grants offers hypotheses that are specially relevant within the Hungarian context.

Central government behaviour is modelled as a function of variables reflecting benevolent welfare maximiser/development policymaker intentions as well as those reflecting re-election motives. Data is thoroughly analysed in search of possible political influences, *election motivated/pork barrel type* grant allocation decisions. To check what is affecting the chances of grant receivals (of any applicant or of local government) several probability models have been tested with different sets of political and socio-economic control variables on a combined dataset (created from five different data sources containing socio-economic, budget and election data for all Hungarian municipalities. This period (starting with the country's 2004 accession to the EU) spans two election cycles (2002-2006; 2006-2010) with general and local elections being held in 2006. To get a more fine-tuned picture, estimations are carried out on the whole database, on *sub-samples by size* and on *different periods pre- and post-election* too.

Results show *partisanship elements* (same colour favouritism), as the Member of Parliament from a locality which is of the same political colour as the incumbent central government raises its chances for getting EU SF grants to some extent, while the same is shown in the case of mayors for certain municipality size categories. Findings also reinforce what the EU SF literature stresses - efficient usage of EU funds depends mostly on institutional conditions – since here, proxies for local administrative capacity and earlier EU project experience are

strongly significant and positive, adding to probabilities of successful EU SF grant receipt. Socio-economic and need controls show a mixed picture, reflecting the conflict of efficiency vs. equity-driven policy goals of development policy today.

This study contributes to a fairly small but emerging literature on the *political economy of intergovernmental grants* and development as well as to the broadening *multi-level governance literature* and *policy research on Structural Funds* allocation. Results are in line with already more researched cohesion literature on the EU-15 and add the case of a new EU member CEE country. Furthermore, this research may inspire and inform potential comparative projects on old and new EU member states in regard to evaluating policy interventions, grant allocation mechanisms or governance issues.