

# 35 Years of Public Sector Reform in Central Europe

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This book offers an in-depth analysis of the trajectory and outcomes of public sector reforms across post-socialist European countries. The authors combine data-driven analysis with examples from reform practice. The book is clear and engaging, with many insightful observations, making it useful for a broader social sciences audience.

In Chapter 1, the authors present the general political, economic and social achievements of the eleven central and eastern European (CEE) countries studied: Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia. All CEE countries succeeded in transitioning from centrally planned (or, in the cases of Croatia and Slovenia, labour-managed) to market economies, and in becoming member states of the EU and NATO. Indicators such as life expectancy, expected years of schooling, labour productivity, and GDP per capita have increased significantly. However, in most cases there is still a large measured gap in these indicators with respect to the average of the 15 “old” EU member states, not to mention the most developed ones in western Europe. The achievements are particularly mixed for public sector performance as measured, for example, by governance quality.

In Chapter 2, the authors delve deeper into the analysis of public sector reforms by focusing on Estonia and Bulgaria as examples of the most and least successful transition in the public sector.

In Estonia, public sector reform was largely a depoliticised and technocratic effort. External advice was led by experts from the IMF and the World Bank, who seem to have been given considerable freedom in designing the reforms. Though the authors suggest that there was minimal political interference and that “Estonian political leadership just saw the reforms as something that happened to them” (p. 41), such a claim underplays the role of domestic institutional engagement. While expert advice may have come from international organizations, it was ultimately Estonian public sector employees who implemented the reforms. A key move in the early stage of transition was that authorities replaced much of the old apparatchik cadre with younger technocrats, thereby reducing resistance to reforms.

Bulgaria followed a different path. Although initial conditions in the public sector were not significantly worse than those in Estonia, the Bulgarian government apparatus remained largely under the control of former communist party members. Public sector reforms were highly politicised and were often discontinued when a new government came to power. While authorities were effective in transposing EU legislation and formally adopting hundreds of reform strategies in various policy areas, their implementation lagged significantly behind. As a result, no genuine change occurred. Instead of addressing the underlying problems, the authorities simply produced documents about the public sector that led to little change in practice.

The third Chapter assesses some unanticipated consequences of public sector reforms. This is a particularly valuable part of the book as it highlights the dif-

ficulty of taking account *ex ante* of the side effects of reforms. One example is the hollowing out of the state, defined by the authors as the reduction of its power through decreased public sector expenditure at national and local levels (p. 54). While the state apparatus had been arguably overextended under central planning, the curtailment of its functions and the downsizing of public employment led to serious coordination problems in the early stages of public sector reforms. This was manifested in the lack of coordination of reform plans among ministries, and dysfunctional relations between central and subnational levels of government. However, the authors' claim that the hollowing out of the state diminished resilience during the 2008 financial crisis and the 2020 Covid-19 crisis appears overstated. For example, by 2008, most CEE countries were already EU members and had functioning public sector institutions. The impact of the financial crisis varied significantly across the region: countries with weak banking supervision were hit the hardest, while others – such as Poland and Croatia – with stronger banking supervision, avoided the financial crisis. Similarly, by arguing that high inflation, declining GDP, large unemployment, and a rise in poverty in the early 1990s were the unanticipated consequences of shock therapy, the authors overlook a large literature that had warned that such outcomes were inevitable.

The fourth Chapter examines the decentralisation processes that took place after the fall of the Berlin Wall. Under the former socialist regimes, almost all political and economic power was concentrated in the hands of the communist party and exercised by the central government. In the public sector, local self-government was limited, even though it may have formally existed in some countries. During the transition, many CEE countries began delegating public revenue and expenditure powers to subnational levels, often in line with the principles of the European Charter of Local Self-Government.<sup>1</sup> What the authors found is that legislation in many countries failed to delegate to local authorities revenue raising powers commensurate with assigned expenditure responsibilities. In Croatia, for instance, local governments have not been able to manage a substantial share of public affairs under their own responsibility either because of the lack of own revenue or because of inadequate competencies and human resources in various expenditure areas. Even more disturbing is the situation in Hungary, where local public finance and expenditure has undergone a process of recentralisation, and the central government retains extensive authority to interfere in local autonomy.

In Chapter 5, the authors evaluate three types of public services across the region: primary education, healthcare, and local communal services. They acknowledge the lack of comparable data and therefore provide only selected comparisons.

<sup>1</sup> The authors do not explain why they use this document as a point of reference for decentralization reform analysis. Adopted by the Council of Europe in 1985, the Charter sets out legal and institutional standards for guaranteeing the political, administrative, and financial autonomy of local authorities. However, it is a non-binding instrument with limited enforcement capacity.

Responsibility for primary education in most CEE countries is shared: municipalities usually establish and maintain schools, while the central government supervises service delivery and checks educational standards. Most primary schools are public and only Hungary has private primary school enrolment, albeit with an insignificant share of about 15% of all pupils. Estonia, Poland and Slovenia are best-performing in terms of PISA scores, while Bulgaria and Romania rank among the lowest. According to the 2022 PISA results (OECD, 2023), Estonia achieved the highest score in all of Europe. While there is no significant overall difference in performance between eastern and western Europe, countries in southeast Europe tend to perform poorly.

Compulsory health insurance is another legacy of socialism in CEE. Most countries have a single public health insurance fund that covers healthcare costs more or less comprehensively. One exception is Latvia, where healthcare is financed through general taxation rather than earmarked health insurance contributions. Another is Czechia and Slovakia, where health insurance funds (public and quasi-public) compete in providing coverage. Private as a complement to public health insurance in general plays a minor role. Nevertheless, the share of out-of-pocket health expenditure is relatively high. In Bulgaria, for example, it accounts for 37% of total health expenditure compared with the EU average of 14%. Interestingly, among CEE countries this share is lowest in Croatia, at only 10%. Slovenia and Czechia are ranked the highest, Romania and Bulgaria the lowest in terms of various healthcare system performance indicators.

Regarding delivery of local services such as public transportation, maintenance of public spaces, local roads and green areas, etc., one aspect of performance the authors assess is to what extent these services are contracted out in CEE instead of being produced “in-house” by local authorities, as traditionally is the case. For instance, the authors find that highly fragmented municipal structures, as seen in Czechia and Slovakia, do not necessarily lead to inefficient service delivery. Drawing on Soukopová and Klimovský’s (2016) analysis of 205 Czech municipalities, they argue that if municipalities use the contracting mode of delivery, they can provide municipal services efficiently from the point of service delivery costs even when they are themselves fragmented.

In the last Chapter, the authors emphasise that after 1989, political institutions, the economy, the legal system, and sociocultural norms in CEE all had to be reinvented. In moments of such profound change, the choices made by decisionmakers in power can become path-dependent. The institutions adopted tend to persist over time and to resist subsequent change. The authors argue that the CEE countries made different institutional choices at the time and eventually followed different transition trajectories, which ultimately led to varying economic, political and social outcomes. Although some readers might find this conclusion somewhat pessimistic – as it suggests that path dependence leaves little room for future improvements in the public sector – I would argue otherwise. It is crucial

to maintain ongoing reform efforts and be prepared for moments when significant change becomes possible. Moreover, it is important to recognise that democracies provide through regular electoral cycles periodic opportunities to improve public sector performance incrementally.

Overall, this book provides a comprehensive and detailed comparative overview of public sector development in CEE. Although written during a period of significant social change in the region and globally, the book will likely remain highly relevant for scholars and practitioners interested in public sector reforms.

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