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Csaba Lentner

Snapshots of Hungary: Balance, Growth and Dynamism

Editor-in-Chief's Foreword

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The ultimate goal of economic policy is to create and sustain a society motivated towards economic conditions capable of development and of achieving surplus. The success of economic policy is accomplished in rising living standards and sustainable economic growth. However, permanent growth is based on and arises from financial equilibrium at the level of the central and local governments, companies and households, collectively strengthening one another. It is a feat of economic policy virtuosity if a country is able to maintain financial equilibrium and economic growth simultaneously. In the past few years Hungary has been characterized by such a phenomenal performance.

Social welfare and its economic basis, the achievement of surplus and the proportionate distribution of the income and profit generated according to social needs and in a humane spirit, is the responsibility of the politicians in control of economic policy, "in exchange" for being an important source of political stability. This is because the primary criterion of creating a good economic policy is the formation of income conditions aligned to the needs of residents, citizens and families and the maintenance of a hopeful public sense of peace. In other words, the management system that is applied must be adjusted to the given country's economic and social conditions and demands. It is essential that economic policy should also follow international trends. It should also fit in with fashionable economic tendencies. However, this should not be

Dr Csaba Lentner, professor, Head of the Institute of Public Finances, National University of Public Service (Lentner.Csaba@uni-nke.hu).

exclusive. Similarly, current economic policy should not rely on past conditions more than can be justified. Every nation and country has a history, and the economic policy of the present must be in harmony with the previous periods, peculiar features, work ethic and inherited social expectations of the nation. But perhaps most importantly, economic policy should conform with the current demands, characteristics and abilities of the society. In the past few decades, Hungary's fundamental problems arose in this sensitive area. Both the Soviet-type planned economic system and the neoliberal market economy that followed its collapse, which were fashionable in past decades, failed to fulfil expectations after being introduced to Hungary (and, to a greater or lesser extent, the whole of the ex-Soviet region) without any transition or foresight. In Hungary the slow but uninterrupted crisis of production built around the planned economy was made irreversible by the weakening of the Soviet Union. The Hungarian communist elite of the time maintained their political hegemony, and the full employment and free healthcare and education that they favoured, with the help of IMF and World Bank loans from the beginning of the 1970s. The system restricted the attaining of substantial surplus and caused inefficiency and disinterest at a social level, and was doomed to collapse by world economic changes, the more efficient production cultures of other nations, rising oil prices and increasing loan rates. The seamless introduction of the neoliberal market economy, which was adopted by an increasing number of countries from the 1980s, failed to improve the results. By the end of the first decade of the twenty first century, the systemic crisis of the change of regime in Hungary had become obvious. The USD 20 billion sovereign debt accumulated between the early 1970s and the 1990s had increased sevenfold, to USD 140 billion, by 2010 as a result of 20 years of uninterrupted neoliberal economic policy, while the population also sank into debt: they owed USD 40 billion. In the case of a country of 10 million, these data represent a debt trap for the state and for families. The economic policy expectations of lending banks hiding in the shadow of external loans created a framework for the economic policy of the various governments. Budget acts and social benefits were managed according to the expectations of the international banks providing the loans, in a similar way to the era of the planned economy and to other countries provided with IMF loans, for example in Latin America and Africa.

To understand Hungarian economic and social policy, it is essential to refer to Hungary's centuries-long search for independence. The nation has been living in the Carpathian Basin for eleven centuries now, having adopted European culture, Christianity and a European form of state only in the 9th or 10th century after the settlement of the Magyar tribes here. From the mid-16th century, the Kingdom of Hungary was torn into three parts during the Ottoman-Hungarian wars, and was deprived of sovereignty and an independent economic policy in each of those parts. When the Ottoman regime weakened and its army was ousted at the end of the 17th century, the territory came under the rule of the Habsburg Empire and then the Austro-Hungarian Monarchy, with rather limited independence in economic policy. The latter state "flowed" into World War I, which the Hungarians were on the losing side of, and was followed by the loss of two-thirds of the country's territory and nearly fifty per cent of its population. The achievements of the system which was rebuilt between the two world wars were then sacrificed during World War II and then, from 1947, by the Stalinist dictatorship and by the softer Kádár regime that replaced it. However, the fully neoliberal system that flared up from the 1980s was also a failure. Perhaps the greatest failure was the fact that it also removed and crippled the achievements of the alternative Hungarian production method, which was a combination of the planned economy and a quasi-market method, launched in the late 1960s within the constraints of the planned economy, but relying on internal resources and endogenous factors and with numerous elements differing from the "bigoted" and inflexible planned economy, as it boosted social performance and financial interest. In other words, it suddenly cut off the opportunity of an organic transition to a market economy through small-scale subsistence farming practiced in parallel with large agricultural plants, state property rental, and the "euphoric ecstasy of performance" by "economic collectives". From the 1990s, the official economic policy increasingly focused its operation on accession to the European Union, enforcing the free movement of money, working capital, services, goods and labour. And so, surrendering the protectionist defence of the internal markets and breaking down the role of the state, regulation, control and the ownership of state holdings became the characteristic economic direction, which corresponded to the spirit of the age. Instead of capitalism relying on internal resources, the neoliberal market economy was based on external fundamentals (FDI). The distressing consequences included accelerated indebtedness, the liquidation of the national wealth, large masses of unemployed people (with one and a half million unemployed between 1989 and 1995), and decline in entrepreneurship and Hungarian companies' chances of operating. Although the influx of international companies, FDI and EU funds (PHARE, SAPARD, ISPA) provided impetus to Hungary, this was only limited and incomplete. Although the technical basis of production and services was transformed and became more modern, the size and level of consumption by the population changed, the institutional system became more similar to that of Europe, and the limited labour absorption of foreign direct investments and excessive favours granted in the form of exemption from taxes caused gross budgetary problems and, moreover, a budget deficit. As Hungary had already weakened before the 2007–2008 crisis that started in the "Anglo-Saxon" markets, it hit Hungary the hardest in the region. The situation became particularly grave because foreign direct investment and sovereign debt financing, in other words, the use of external resources, was the deepest, most intensive and most exclusive in Hungary: FDI was almost the exclusive basis of the operation of the national economy. When the external resources dried up, and the internal resources were insufficient as they had been left to wither, Hungary drifted towards state bankruptcy, which was temporarily fended off in 2008 by a 25 billion dollar loan from the consortium of the IMF, the World Bank and European Central Bank. A permanent solution was not provided by loans but by the new type of economic policy that unfolded from 2010.

For the European and overseas nations the crisis that hit in the second half of the 2000s meant the opportunity for renewal and looking forward, the setting up of new economic policies and the adjustment of the old neoliberal method to trigger a smoother and more predictable growth and development. After 2010, the Hungarian government moderated the application of the neoliberal economic philosophy, levied taxes on commercial banks and public utility service providers and tightened their supervision. The state adopted a proactive role in engineering the economy. By repurchasing the previously privatised national property, it has created a more predictable environment for controlling the economy. It has started to take steps on behalf of businesses to acquire market share in Russia, China and the African continent. It is imposing taxes more in tune with the ability to pay of international companies, i.e. higher taxes, while simultaneously granting tax allowances and more favourable market conditions for Hungarian residents, who were pushed into the background for decades. The personal income tax payable by employees was cut from 36 to 15 per cent, and extensive programmes were started to support families in having children. The national economic units that are in a critical financial situation (local councils, consumer and corporate customers indebted in foreign currency) were involved in financial consolidation. The burdens incurred by the various government budgetary subsystems, companies and families on account of the previous defective economic policy decreased, while demand increased considerably due to income regulation and economic growth. Financial stability and then the conditions for growth were created in Hungary through the balancing and consolidation of the financial processes of the budget and then, after 2013, by the management of the National Bank of Hungary which had a new approach, and this beneficial process has been ongoing for half a decade. The Hungarian central bank's policy of cutting the base rate, properly managed policy of moderating inflation, its Funding for Growth Scheme and the direct and indirect facilities provided to cut sovereign debt have turned residents (banks and households) into sponsors financing the sovereign debt, and reduced the country's external exposure as well as the interest payable on the sovereign debt. The budget deficit has decreased below the three-percent criterion set at Maastricht and the rapid economic growth that has been generated by fiscal and monetary instruments had resulted in the fall of government debt from 85 to 75 percent of GDP in seven years, while the ratio denominated in foreign currency had decreased by 60 percent. While maintaining its independence from the government, the central bank has regained its function of serving the national economy and the public good through the actions it has taken to refinance the real sector and mitigate indebtedness, in other words by the application of the multiple mandate system. Tighter Hungarian financial regulation, more powerful support to domestic companies and the population, and the completion of the central bank's operation with crisis management functions have been combined to form a system that is termed the "Hungarian method" and which comprises elements that are present in numerous places across the world, albeit in different forms. After all, economic policy and the method of handling the crisis may not be imported and nor may it be standard, but instead it should be adjusted to the country's needs, circumstances and operating ethic. As there are hardly any isolated countries in the world, economic and social policy trends and principles influence the relations of all countries. However, they cannot be expected to be enforced as a standard and to impact in the same way everywhere, and it is impossible for them to result in the same economic and social situation. Although no country can block changes, it is important that economic governance should consider the country's history and circumstances and the requirements of its society and market participants. Hungary was not averse to change when it started to access the European Union three decades ago, and when it became a full member in 2004. However, by now the guiding principles of the European Union's economic policy have become slightly outdated. How can an alliance that is currently facing a security, foreign affairs and demographic crisis, struggling with increasing imbalances and characterised by sharply falling economic data be Hungary's exclusive point of reference and allied partner? This is why Hungary is orientating itself towards Eastern Europe, the Far East and Africa. This is why Hungary is firmly protecting its borders and why it wants to use economic instruments to maintain a society based on work instead of an economy based on subsidies. Despite the fact that Hungary's handling of the crisis has been successful, the country cannot fight towards the front echelons of history if it is unable to avoid the trap of mediocre development. The current standing of the Hungarian economy still leaves something to be desired, but it holds promise because there is the ability and the support of society to step into the ranks of permanently successful nations.

To react in advance to the slogans that will soon emerge from false prophets, it should be made clear that this publication is not a PR book, nor is it intended to be a unilateral guide to success, and therefore problems have also been addressed with the objectivity worthy of an academic workshop.

Hungary has been fighting its demons to this day. The Hungarian economy is successful, demand from the population is on the rise, and yet, numerous academics, mainly inherited from the past, impede the teaching of the economic regulation and methodology of a proactive state. It cannot be ascertained whether these people are averse to development and are vegetating in the past (in the ideologies of failed socialism or in the full neoliberal market economy) are concentrated in a single institution. It cannot be stated that they are linked to specific universities or departments or the Hungarian Academy of Sciences. In other words, there are no academic workshops exclusively advocating neoliberalism or the proactive state method. This is because the universities and the Hungarian Academy of Sciences are no longer homogenous. Academic professors and public administrative managers who believe in a system of unconventional economic and social concepts have appeared. Nevertheless, Hungary's achievements are being pulverised by orthodox concepts and their advocates. However, we know that nothing new and permanently sustainable can be built on the renaissance of obsolete ideas. We are fighting for the opportunity to teach the central bank's policy supporting good governance, the government's successful economic policy, and the methodologically-renewed control over public finances. For the opportunity to write books about their operation, and to organize academic workshops to familiarise ourselves and others with our methodology, as these are the ways to make the intellectuals of the future, companies, banks and government officials understand how the Hungarian economy works and achieves success. But if we allow the curriculum and objective academic research be curbed, then we will not be able to develop ourselves to the level of the researchers leading the ideological support for the failed Soviet and neoliberal economic policies during the "wasted" decades, and we will not be able to make future intellectuals understand what caused Hungary's failure in the previous decades.

A new world and a new system of economic concepts are being created. Or perhaps being revived all over the world, including in Hungary, as an alternative to Adam Smith's paradigm (*The Theory of Moral Sentiments,* 1759, and *The Wealth of Nations,* 1776), with the work of Antonio Genovesi and Friedrich List standing to the fore, and following the philosophy of John Maynard Keynes, who highlighted state and fiscal intervention. The basis of the system of concepts that re-establish the state's rational efforts to engineer the economy is that under weak state control and regulation, the profiteering of the isolated and competing market participants kept in an information asymmetry led to a crisis. The situation that had evolved by 2007–2008 was more than just a crisis of the "Anglo-Saxon" mortgage markets, more than a financial crisis and more than a global economic crisis. Actually, we are facing a systemic crisis, the crisis of the neoliberal production method built on the unlimited automation and independence of the market participants, which has occurred in the past decade.

Conservative economics is Hungary's official economic policy, organised around the ideal of a human-centred economy based on work and coordinated with government instruments. Unfortunately, as the social sciences are still heavily one-sided and rooted in the past, insufficiently qualified economists, lawyers and public administration specialists are filling positions of responsibility. There is a lot to do. Naturally, Hungary's specific achievements are low and public administration is limping along, while the exemplary cooperation between the government and the central bank is creating economic growth and simultaneous financial equilibrium. If the transfer of the new kind of knowledge is blocked already at a junior level, then how will Hungary become competitive? And then, with a masterstroke, the opponents of our doctrines will blame Prime Minister Viktor Orbán and his government. The fact that, because of the formerly feeble performance of the Hungarian economy, several hundreds of thousands of fellow Hungarians have left the country to seek employment abroad poses a problem. They are mostly young and highly qualified people. They are missing from production. In order to regain competitiveness after a successful fiscal and then monetary consolidation, a higher number of employees are needed with higher qualifications. In the new, and still evolving, situation the formation and teaching of an independent economic policy that relies on internal, endogenous factors is indispensable, as the age of imported economic policies is over because it led to failure.

The aim of this publication, Volume XIII of *Polgári Szemle,* is to give the reader – wherever in the world – a better understanding of the economic and social changes that have been under way for the last seven years in Hungary. Drawing on the ideas of the best conservative intellectuals, a glimpse is given into the changes in Hungary's economic policy and public finance system, their intellectual foundations and their achievements. We draw from Hungary's cultural and historical past so that the reader will understand and see the spiritual roots, traditions and history of this nation which has been living in the middle of Europe for eleven centuries, accept our preference for ethnic homogeneity and our strong intention to preserve our European identity, and improve their understanding of the necessity for and method of creating an independent national economic policy that has been delayed for five hundred years. And we also wish to explain the fast pace adopted to overcome the "historical phase delay", and to familiarise the reader with the main academic books about these changes which form a taxonomy.

I wish you productive reading!

On behalf of the editorial board,
Professor Csaba Lentner
Editor-in-chief of Polgári Szemle