Zoltán Nagy

Review of Books on the Scientific Taxonomy of New-Type Public Finances

Summary
As in numerous other places all over the world, unconventional instruments have come to the fore in Hungary since 2010 in fiscal policy and since 2013 in the monetary space. Changes in public finances have revealed the need for the writing of a scientific taxonomy to support practical mechanisms and its inclusion in the university curriculum. The main framework of a scientific taxonomy of Hungarian public finances, a taxonomy placed in a Hungarian historical and in an international context, is given in Public Finances and the Study of the General Government, Volume I, while a more detailed study of public finances, including financial and governmental management, taxation and control, is given in the volume entitled Fiscal Policy and the Management of Public Finances. Below is a review of these extremely significant books and the scientific taxonomy they reveal.

Keywords: monetary policy, public finances

In recent decades, public finances and monetary policy have increasingly come into the focus of public thinking, and academic researchers are also increasingly engaging in this topic. The financial and economic crisis highlighted the need for governments to exercise increased control over the system of financial institutions, and for the building of a system of public finance management that increases resilience to financial crises and sustainability over the longer term. The crisis drove governments to moderate public spending. For a small and economically vulnerable country, excessive indebtedness gives rise to concern, as in a financial market crisis these economies suffer most. In addition to the system of financial institutions, insufficient supervision of the financial system may also affect economic developments and result in serious social problems, as seen...
in relation to foreign currency lending. All these developments encouraged legislation to renew regulation, and so a profound change started in 2010 in the areas of both fiscal and monetary regulation. All of this justifies the elaboration of regulation for educational purposes. Finances are characterized by rapid regulatory changes, but the systematization and publication of the new phenomena and new legal institutions are indispensable for educational and academic purposes.

It is a recurrent problem that the Hungarian population is poorly educated in finance, and this may cause considerable losses both to individuals and to society as a whole. For this reason it is especially important for financial subjects to be given the place they deserve in education, primarily in higher education. Books of a high professional standard that facilitate students’ acquisition of financial skills are important. This, as the author also points out, is the aim of the two books reviewed here: to familiarize students of political science and law with the mechanisms of governmental finances and financial management.

The two books are reviewed together here because they are closely interconnected from both a topical and a teaching point of view. The first volume gives a comprehensive overview of the fiscal and monetary institutional system in a historical and international context, while the second one provides details of the individual areas in the form of excerpts. Professor Csaba Lentner, Head of the Institute of Public Finances at the National University of Public Service, is the author of the first volume, and the creative editor and author of some especially significant chapters about taxonomy in the second book. Both volumes have been published with support from the National University of Public Service. The first volume was edited by the National Public Service and Textbook Publisher in 2013, and the second one by the University Press in 2015. The author’s academic and textbook writing activity is hallmarked, among others, by several academic financial studies recently published with his contribution as editor and proofreader, which are also suitable for educational purposes: Bank Management. Bank Regulation – Financial Customer Protection (2013), Finances in Social Security (Péter Novoszáth, 2014), and The Great Book of Foreign Currency Lending (2015). These works are closely related to the two books about renewed public finances and regulation that are reviewed here.

The standard of the monographs and their usefulness is considerably increased by the extensive literature references at the end of the chapters and by several hundred footnotes.

In the first volume about public finances, the author sets out the scientific taxonomy of public finances straight away in the first chapter. Due to his profession, the author primarily has an economist’s approach to the taxonomy of public finances, although he builds up his methodology on the interdisciplinary boundary of law and economics. The significance of public finances is highlighted on the basis of historical economic experiences. The financial crisis revealed that leaving financial markets to operate on their own leads to crises, and for this reason, public finance regulation is particularly important. The author agrees with theoretical economist Dani Rodrik, who claims that four major groups of institutions and
rules constitute indispensable preconditions to economic and social development: the institutions guaranteeing the protection of property rights, market regulatory institutions, the institutions of stabilisation and the institutions of legitimation.

The author includes monetary policy regulation within the system of public finances, as justified, among others, by the economic crisis, when special focus was placed on the significance of harmony between the fiscal and monetary aspects. In the author’s view the two backbones of public finances are fiscal policy and monetary policy.

In terms of taxonomy, Csaba Lentner includes public finances within political science (public administration), and does not talk about public administrative law. The reason for this lies in his interdisciplinary approach to both public administration and the study of public finances. (The interdisciplinary approach means a combined legal, economic and political scientific approach.) This system also includes the study of general government finances, which is the technical – both economic and legal – framework for public finances and financial developments. In my opinion, the development of this new approach and the complete rejection of the financial law approach may trigger serious debates from the representatives of jurisprudence, especially of financial jurisprudence. Although financial jurisprudence has not been averse to the new kind of complex interdisciplinary approach, as an area within jurisprudence its focus is on regulatory issues and marks off this legal branch from other branches of law (public administration law) and other areas of knowledge.

The second chapter of the book also endeavours to lay the economic foundations of public finance management. In this chapter the author explains the significance of the provident state as the most important factor in the solution of the economic crisis. The author is of the view that efficient state regulation and conscious governmental influence are significant factors in reorganization, since a provident state is capable of mitigating the impacts of crises and regulating market developments to avoid market failures. As a related experience, he highlights the success of Hungarian economic policy after 2010. Following an outline of the evolution of the financial crisis and the related economic-theoretical reasoning, the author goes on to explain the role of Hungarian fiscal policy in consolidation. In his opinion, as in the current economic conditions the centre-right government did not have the opportunity to use fiscal means to boost the economy, it was compelled to increase revenues by levying various “crisis taxes” and by a broadening of the burden of taxation, in order to consolidate the budget. The author considers recent Hungarian economic policy as successful, in contrast to neoliberal economic policy, and describes it as a good example. In order to facilitate students’ understanding of the material and recognition of interrelationships, in this chapter the author defines the basic terms required to understand the management of public finances.

The next chapters, up to the fourteenth, describe the current public finance system. The author analyses the past twenty years of developments in public finances, and concludes that a reform is required. Renewed regulation is
Based on carrying out a reform in public finances, including the determination of the size of public finances, a change in the method performing public duties, and the development of an efficient and transparent system of institutions that determines the operation of the budgetary system. Chapter 3 also describes the structure and basic principles of public finances, the operation of the Fiscal Council, budgetary revenues and expenses, and the system of rules by which national assets are managed.

The chapter on the central sub-system gives an excellent overview of central budget management. Quite rightly, the operation of social security funds and extra-budgetary funds is presented in this chapter, as under the new regulations these are not separate sub-systems but are included in the central sub-system.

In chapter 5, the author also gives a comprehensive analysis of the system of local governments, the constitutional foundations of local governments’ financial independence, their asset management and budget management. Among the introductory thoughts, the author quite rightly points out that a genuine system of municipalities can only be operated if local governments are independent, which in turn requires financial independence as a significant element. He emphasizes that following the change of regime, duties were considerably decentralised, and the central government assigned an increasing number of responsibilities to local governments. However, the transfer of tasks was not followed by a proportionate re-allocation of central resources. Consequently, local governments accumulated a considerable operating deficit, which limited their financial management, and the autonomy of local governments decreased. The author tackles the recent problem of local governments’ debt consolidation. He gives a summary analysis of the consolidation solution and its results. The author points out the risks inherent in local governments’ financial management. Due to underfinancing, the local government sector faced a shortage of operating and accumulation funds, while the exposure of local governments to banks was constantly increasing and had reached HUF 1247 billion by 2010. He discloses that 84.6 per cent of the debt was accumulated in the capital and in cities with county rights. Such a sizeable debt also involves higher risk in the course of business management. In order to secure the funds payable in contribution as a precondition of support from the European Union, local governments raised funds from the issue of foreign currency bonds, so they were increasingly exposed to currency rate risk, especially during the financial and economic crisis. It is also important to stress that the investments implemented using support from the European Union are not productive, and cannot generate the funds required for repayment. Based on all this, the government considered it justified to assume their debt, which did not affect sovereign debt, as the debt owed by the local government sub-system is included in the government debt anyway.

The chapter entitled “Main Features of Taxation” is relatively short, but it is completed by the sufficiently detailed second volume, which gives a thorough description of the rules of taxation as well as the regulation of the individual types of tax.
A far more detailed and comprehensive picture is given of monetary policy and the National Bank of Hungary. The author describes the central bank’s legal status and fundamental responsibilities. The central bank’s role in financial stability and economic growth is also shown from the perspective of economic theory, with the outcomes and achievements of the Funding for Growth Scheme discussed separately. In the remaining chapters of the book, an overview is given of the organizational structure of the treasury and the rules for managing budgetary organisations. Especially interesting points in these chapters include a discussion of government debt and the illustration of the detailed economic analysis. Particularly interesting is the comprehensive analysis, given in the last two chapters, of the past few years from a public finance perspective (convergences, unconventional ideas, prevailing economic policy programmes, crises and prospects). The chapter describes the requirements of the European Union and their interrelationships with the Hungarian budget. Devoted to unconventional economic policy, the author is of the opinion that the new government’s economic policy resulted in the consolidation of public finances, and the new monetary regulation and monetary policy trends have efficiently facilitated this economic policy. He supports his view by the presentation of various economic policy programmes and development plans. In the last chapter he places the Hungarian crisis management of recent years in historical and international perspectives. An analysis of results and errors obviously looks different from a historical perspective, and yet the taxonomic textbook presentation of the period is to the credit of the author.

The second, far more bulky volume elaborates on and completes the topics of the first volume in more than 800 pages. This volume was compiled with contributions from several authors, as is mentioned by the editor in his introductory thoughts. The authors include, among others, teachers of the Institute for Public Finances of the National University of Public Service, lecturers of the University of Miskolc and the Financial Law Department of the University of Pécs, and the senior specialists of the National Bank of Hungary, the State Audit Office, the Ministry of the National Economy, the Hungarian Tax and Audit Office, the National Tax and Customs Authority, the Treasury, the Ministry of the Interior and the Chamber of Hungarian Auditors.

The editor had a difficult task: he had to compile the studies covering a fairly wide area, and divide them into chapters. Clearly, he asked the authors to elaborate on various topics in relation to the previous volume. However, these studies also serve as independent reading, as they explain individual areas of public finances. The book tackles, among other issues, specific budget management areas (control, ethical issues, public procurement, budget support, and planning), a detailed presentation of fiscal and social security regulation (including the specific tax types, the rules of taxes, and fiscal theory), and operative public finance management.

These two volumes certainly fill a gap, as no academic study elaborating on the recent changes in public finances and monetary policy has been written in a textbook form in relation to the agenda of studies in law and political sciences. I regard publication in two volumes as a
good solution, as this way the taxonomic structure is combined with a thorough and professional analysis of the individual areas.