

# The Economics of Arrival and Reconciliation<sup>1</sup>

## Welcome by the Editor-in-Chief



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In the 20<sup>th</sup> and 21<sup>st</sup> centuries, there is a clear appreciation of the value of economic models that serve the development of humanity on a broader scale and in an appropriate way, and of the general responsibility for future generations that this implies. In other words, this noble task has been pushed to the forefront of thought and action, with the focus on the fair distribution of income and the protection of the environment. On the other hand, there is a tendency, especially among those who have escaped the shackles of the former colonial, semi-colonial or even socialist planned economy, to define the positive development of our economy solely in terms of the GDP growth. In this respect, as well, we have integrated ourselves into the mainstream dictated by the leading economists of the developed market economies of the North Atlantic. In fact, here in Central Europe, and particularly in Hungary, we have taken it upon ourselves to define social welfare systems, and corporate and family tax benefits and subsidies, in terms of figures and percentages, in the same way as economic growth, in order to increase the desired willingness to have children, and to express the forecast impact in figures, but above all to set GDP growth, which is rising steadily, as the basic condition for these social goals, and against this background, we have long believed - essentially on the basis of Rostow<sup>2</sup> - that infinite growth will lead to a 'state of peace' of infinite consumption. But we had to realise that we Hungarians, Central Europeans, are now - to use Rostow's terminology - at best only in the take-off period, but if we are critical and above all honest with ourselves, we are still only preparing the preconditions for the real take-off, to revive our economy, after centuries of failed attempts to catch up. So let us just ask for ourselves: are we even worth the age of mass consumption in our lifetime?

Our economic and social development is rather hectic. Nearly half a millennium after the break-up of the Western Roman Empire<sup>3</sup> we entered the Carpathian Basin, founded a state, adopted Christianity and began to build an administration in keeping with the spirit of the times. Until the middle of the 16<sup>th</sup> century we developed dynamically and became a dominant power in Central Europe, even preventing the expansion of the Ottoman Empire for a century and a half<sup>4</sup>, but in the middle of the 16<sup>th</sup> century, our country was torn

apart, we lost our independent statehood, and with it the right and practical possibility to formulate our own economic policy. The centuries that followed the expulsion of the Turks were spent under Habsburg rule, amidst constant struggles for freedom, and it was only in the second half of the 19<sup>th</sup> century, during the period of dualism, that the Austro-Hungarian Monarchy saw a revival of economic and commercial life and some social modernisation, which was stifled and stalled by the First and Second World Wars.<sup>5</sup> The division into Soviet spheres of influence under the Yalta Agreement and changes in the political and economic regime that began in the late 1980s did not bring about the take-off stage, nor what Rostow calls a short period of intense growth. Although it has sometimes been suggested that the final phase of the Rostow model (mass consumption) would have been reached before the “drive to maturity” stage.

No, we have hardly gotten anywhere, especially not to the development of Western European countries, which were considered to be at the level of catching up at the time. So we have been lagging behind the socialist planned economy for centuries, and unfortunately we have remained an emerging market economy - but it is true that we are experimenting with many reforms. Let us add that the models we have used have been good and have proven elsewhere. We developed the theory of the planned economy with market elements, but it has lost its force in the crossfire of retrograde forces. However, the People’s Republic of China still applies it successfully. Our market economy model, based on the import of external working capital, which was based on the spirit of the Washington Consensus, also failed. Although it is the model that made Ireland advanced. Reflecting the regime change and looking ahead, wide-ranging public finance reforms started in 2010.<sup>6</sup> We have made a lot of progress compared to our previous selves. We have achieved the most successful ten years of the last hundred years between 2010 and 2019<sup>7</sup>, even as the pace of our fiscal reforms has slowed since the middle of the previous decade. But overall, our development gap with the international leaders has barely changed, and the pace and level of development of our eastern and central European neighbours is also far better than our own.

Like the West, we have based our economic development on growth rather than development. In fact, we have become so much ‘Rostow followers’ to this day - not paying enough attention to the exhortations of the Hungarian National Bank, which has been touting monetary and intellectual renewal since 2013 and has implemented many of it<sup>8</sup> –, that we have even, as I have previously pointed out, modelled our social policy, our social care system, our tax and housing support for families on economic growth.

This is why income growth and social support have actually lost their appeal. In national currency terms, performance has risen, but when converted into euros or dollars, the increase is less impressive. What is more, labour and business productivity have not increased as expected. Yet, despite more public support, there are fewer families having children, while the fertility rate of women has increased, but the number of cohorts of childbearing age is falling. While we chase growth, we chase numbers, both in the GDP and in the increase in social support and incomes, but has the infrastructure for child-rearing improved, and are our workers decisively healthier and better educated? Has child-rearing been given

the social status it deserves? These are the only items that would really express progress, but we are still thinking in terms of the percentage increase in the volume of the GDP. We consider industrial production to be a component of the GDP, although we are no longer so much exposed to the entry of a well-educated, healthy, innovative workforce into the labour market, we are mostly concerned with the number of workers and the increase in the volume of production.

The amount of money spent on building schools and hospitals has increased, but the level of prevention of health deterioration has not increased, and we do not have more and more motivated doctors and teachers. The quantitative problems of the western world have certainly sucked us in. Our achievements of the last decade have also been mainly geared towards extensive development, putting labour reserves to work and building up independent economic policy patterns that are better adapted to the country's needs and capabilities, but which focus mainly on growth. However, our everyday lives, fuelled by growth, must be taken over by preparations for the actual take-off, i.e. the generalisation of the social and economic will to create a competitive economy and society. We need to increase the number and productivity of our small and medium-sized enterprises, which are competitive in export markets. There is a need to increase the sense of security of the population across governments. We need new industries and agricultural technologies whose production is increasingly based on knowledge capital, thereby increasing the scale and proportion of added value. There must be high quality health care, competitive education, a family-friendly living environment and a positive vision of the future, but this requires stable public finances, efficient governance, a balanced and environmentally friendly energy mix, and a middle class that is high in material, intellectual and knowledge levels, and that is able to set off on the path of civic development.

If the economic and social model of the last decade was able to survive the fifth wave of COVID-19, and we became the second best performing country in Europe in 2021, we have a chance to avoid the economic effects of another crisis, the Russian-Ukrainian war, the negative effects of rising fuel prices, inflation and interest rates, and to be the winner of the post-war reconstruction period. In other words, arriving in the circle of developed societies and economies, and being satisfied with our environment, their income conditions, the period of reconciliation.

Our scientific journal, *Polgári Szemle*, which is also certified by the Hungarian Academy of Sciences, will enter its 18<sup>th</sup> volume in 2022 and will be published in English for the fifth time<sup>9</sup>. It will provide a comprehensive and, we hope, scientifically sound picture of this struggling period, which has been mostly successful in recent years, of the challenges and some historical dimensions that also define our present.

It is worth reading the *Polgári Szemle* journal!

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Editor-in-chief of *Polgári Szemle*

NOTES

- <sup>1</sup> The title of my dissertation is partly based on Katherine Trebeck & Jeremy Williams (2019), *The Economics of Arrival: Ideas for a Grown-up Economy*, (Published by Policy Press, University of Bristol) and its guiding idea.
- <sup>2</sup> W.W. Rostow (1959): *The Stages of Economic Growth*. *The Economic History Review*, New Series, Vol. 12, No. 1 pp. 1-16. Rostow's spectrum of economic growth: 1) traditional society, 2) preconditions for take-off, 3) take-off, 4) drive to maturity, then 5) high mass consumption. The theory thus identifies a linear progression of upwardly sequential stages in the development process.
- <sup>3</sup> If we disregard Gyula László's theory of double occupation. See Gyula László (1978). *Magvető Kiadó*, Budapest. According to the theory of the double occupation, the wandering Hungarian tribes did not occupy Hungary in the 9<sup>th</sup> century, but „only” (re)returned home.
- <sup>4</sup> Let us add: the fact that we lost our decisive battle against the Turks on the field of Mohács in 1526, and the country was divided into three parts, the centre became a Turkish occupation, while the western and the Highlands were under the Habsburg Empire and the Transylvanian Principality under the latent control of the Turkish Porte, we only stopped the Turkish armies preparing to conquer Vienna and Europe in the territory of historical Hungary.
- <sup>5</sup> For more on the chronology of Hungarian historical development and economic-public finance life up to the beginning of the 21st century, see Lentner, Csaba (2020), *East of Europe, West of Asia: Historical Development of Hungarian Public Finances from the Age of Dualism to the Present*. L'Harmattan Publishing, Paris, <https://www.amazon.com/East-Europe-West-Csaba-Lentner-ebook/dp/B08GQC9HDT>
- <sup>6</sup> See the academic work of György Matolcsy, President of the Hungarian National Bank (MNB): <https://m2.mtmt.hu/gui2/?type=authors&mode=browse&sel=10049867> In particular, Matolcsy, György (2020): the book entitled *Economic Growth and Balance*, published by the Hungarian National Bank (MNB), <https://pallasathenekiado.hu/konyvesbolt/economic-balance-and-growth/>
- <sup>7</sup> See a book entitled *10 X 10 Years in Numbers, The Economic History of Hungary for the Last 100 years. 1920-2020, Trianon 100*, which is of related research by the Hungarian National Bank (MNB), Hungarian National Bank, 2020. Edited by Barnabás Virág, <https://www.mnb.hu/en/publications/mnb-book-series/trianon-100>
- <sup>8</sup> Palotai, Dániel – Barnabás, Virág, Barnabás (eds.) (2020): *Competitiveness and Growth*, Hungarian National Bank, <https://pallasathenekiado.hu/konyvesbolt/competitiveness-and-growth/>
- <sup>9</sup> Our previous issues in English are also available online: <https://eng.polgariszemle.hu/> and we are working on our 3rd thematic Chinese issue: <https://cn.polgariszemle.hu/>