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Scientific Taxonomy of Hungarian Public Finances After 2010¹



Summary

For four decades after World War II (between 1947 and the end of the 1980s), a Soviet-type planned economy introduced under external pressure prevailed in Hungary. When this line weakened, the then “trendy” neoliberal market economy system gained ground. Although the Hungarian planned economy was characterized by a practice saturated with market elements, intended to increase the financial interests of domestic residents, still control by external fundamentals, deregulation and chopping government functions became the general market practice. However, neither the planned economy modelled on the Soviet system, nor the neoliberal market economy model built on the principles of the Washington Consensus suit the Hungarian conditions. The Crisis of the neoliberal model had become obvious by the end of the 2000s. In contrast to this, however, after 2010, a proactive economy influencing state model came to the forefront during the practice of recovery from the crisis.

Recalling the historical events preceding the changes, following the new international trends after 2007–2008, and the successes achieved using unconventional instruments after the 2010 government change, all give a reason for the existence of Hungarian public finance reforms. With institutional thinking coming to the limelight and by demonstration of the new type of instruments, the author scientifically justifies the unconventional methods used in Hungarian public finances. In the author’s opinion, after the 2007–2008 crisis, all over the world evidences suggest an increasing shift in thinking towards the institutional framework and the need of state influence, control and regulation of the economy. There is a strong demand for ad-

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dressng informational asymmetries, increasing government control and improving the conditions of competition by means available for governments. This analysis provides a scientific outline of this taxonomy.

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INCREASING INSTITUTIONAL THINKING –
A HISTORICAL AND INTERNATIONAL OUTLOOK

Although nearly all the most prominent personalities in the more than two hundred years history of economics were engaged in public finance issues, the approach that consciously endeavoured to integrate economic developments into the social and political reality only appeared about a century ago. In our days, thinking in terms of institutions is especially topical, as the crisis that erupted in 2007–2008 proves that the market must not be left alone and economic issues should not be construed without their consequences taken in the broad sense.

According to Ronald Coase (1937:386–405; 1991), an economist awarded the Nobel Prize in 1991, for a long time economics neglected institutional questions and was only engaged in completing and formalizing the ideals of Adam Smith's 1776 *Wealth of Nations*, a book that undoubtedly triggered revolutionary changes (Smith, 1776). All this means that economists paid insufficient attention to the developments within an organization or a company – this was the subject matter of Coase's research – and to the social and political environment and context of economic decisions.

Institutions matter – this was succinctly worded by Douglass North, Nobel Prize winner of 1993 (North, 1993; 1994:381–391). Following the traditions of Thorstein Veblen (1899), Walton Hamilton (1919:309–318) and John R. Commons (1936:237–249), this school of economics defines institutions as any factor that has an impact on economic decisions: formal rules, i.e. laws and other government regulations, and informal factors, i.e. culture and even the religious background. Nowadays it is difficult to believe, but for a long time economists were nearly divorced from everyday reality and failed to consider that in different legal and cultural settings people react differently to the individual economic policy and public finance developments and decisions. Hungary's experiences of the past two decades show the significance of this topic, as the recipes borrowed from more developed market economies and countries that have been learning democracy for a longer period did not fit the Hungarian features and frequently failed in Hungary.

As the ideas of John Maynard Keynes gained ground in the 1930s, the institutional approach, which emphasized the significance of rules and standards, was pushed to the background (Keynes, 1936). A few decades later, during the 1980s and 1990s, in-

stitutionalists, including the above-mentioned Coase and North, the 2009 Noble Prize winner Oliver Williamson, once again made their way to the mainstream economic thinking (Williamson, 2000:595–613). Nevertheless, their theoretically underpinned ideas were less fed through to practice, apparently, this was delayed until the 2007–2008 crisis. The efforts at breaking the preponderance of schools celebrating market mechanisms proved to be futile for a long time, and a series of economic collapses were required to make the world realize that a self-remedying market, unlimited reason, or public finances operating without regulation are non-existent.

Undoubtedly, economic policy and public finances must also place special emphasis on the costs of economic and financial transactions and on the fact that one of the high-priority duties of economic management is to cut these costs. This means that institutions, rules and law must be adopted to reduce transaction costs. If we accept that these costs typically arise from uncertainty and risks, then one of the purposes of a state is to create a background that keeps such market uncertainties in check and moderates them. For this reason, one of the main paths of institutional thinking is the research of the regulatory matrix required for the creation of a smoothly functioning economy and state. According to the classification given by Harvard professor Dani Rodrik, there are four distinguishable institutional groups that are indispensable for economic and social development (Rodrik, 2000; 2003).

– Economic development is inconceivable without the institutions that guarantee the protection of ownership rights (*market-creating institutions*), as protection and guarantee for the given type of ownership rights are the prerequisites of development.

– *Market regulating institutions*: even classical economics admits that there are market failures that need to be addressed – they include externalities, imperfect information and the restrictive consequences of the economies of scale.

– *Market stabilizing institutions*: all institutions aimed at ensuring a stable economic environment, including price stability, the minimization of macro-economic volatility, or the aversion of financial crises (central banks, exchange rate regimes, and fiscal and monetary rules).

– *Market legitimizing institutions*: It is insufficient to prove the superiority of the market economy in schoolbooks and journals, the society should be persuaded to accept the institutions that address market fluctuations and negative outcomes, hammer and protect social trust (social security and unemployment insurance schemes, welfare benefits, pension funds, and the public finance system).

One of the important areas of the institutional approach to the public finance system is central bank regulation, which was among the first areas to be reshuffled as a result of the crisis. In Rodrik's model, the central bank is seen as one of the most important stabilizing institutions in the economy. According to this classical approach, this serves price stability, however, after the events of the 2007–2008 crisis, the central banks' responsibility for general macro-economic stability and perhaps even social stability is also being raised. The financial crisis put an end to the previously created consensus on monetary policy. The redistribution effects of monetary policy came to the forefront again, and the modelling of central bank decisions and their transparency

inevitably required the creation of a conceptual framework that allows the complex interpretation of monetary policy decisions in a social context.

In the 20 to 30 years preceding the crisis, reflections about the central bank policy were rather single-minded. In their studies, Barro and Gordon, on the one hand (Barro–Gordon, 1983:589–610), and Kydland and Prescott, on the other, determined the basic frame of mind in relation to central banks' independence (Kydland–Prescott, 1977:473–492). More complex approaches more susceptible to realities were put on hold till today, despite the fact that already back in 1983 John Woolley set up a typology of the factors having their effects felt through the government and those beyond the government, as well as the structural and the less embedded factors that may influence central banks' decisions (Woolley, 1983). The 1998 Russian crisis was an additional warning sign. This was the very first caution that called attention to the insufficiency of the means available for regulatory and supervisory regimes, which acted against the efficient and safe operation of the financial system over the long term. This is because in the course of the deregulation that lasted for nearly forty years before the collapse of the Russian stock exchange, guaranteed legal institutions disappeared from the financial and capital market regulation (Kecskés, 2016:333–356). Experiences in monetary policy and the related research may be useful, among other reasons, because they shed light on the thorough changes that may follow in the next few decades in relation to the totality of public finances on a theoretical and practical level.

FUNDAMENTALS OF FISCAL AND MONETARY POLICY AFTER 2010

Before the crisis it was generally accepted that central banks must operate in the “one objective – one instrument” framework, and in the European continental space this meant that the only factor they were required to take into account was inflation, and if they intervened to adjust inflationary developments, they do it through short-term interests.² This “one objective, one instrument” principle is a classical operational scheme for central banks. However, the crisis superseded this paradigm (Blanchard et al., 2012:174), and currently central banks apply a great variety of instruments³ and in addition to their primary aim, they also focus on other goals like financial stability, boosting lending and support to the government's economic policy.

According to the consensus made after the crisis, price stability is required for sustainable, long-term growth in the economy, however, this condition is insufficient; what is more, the central bank should use the instruments to achieve macro-economic stability. Thus the central banking practice has developed in the direction of facilitating economic policy objectives in the broader sense, keeping the price stability objective as a priority. The arguments “limiting” the requirements of central banking operation, prevalent before the crisis (Kydland–Prescott, 1977), seem to be losing force, their enforceability is declining, while the elaboration of post-crisis theories providing a scientific basis for “optimal” central banking operation is in progress.⁴

In contrast to the conventional approach, the two most important branches of economic policy⁵ include a budget policy underpinned by a god tax system, and a monetary

policy having complex economic objectives and placed in a social context. This means that in an institutional perspective, the public finance regime is built on fiscal and monetary policies. The long-term sustainability of fiscal policy has a substantial impact on any particular country's sovereign risk assessment, and indirectly, the elbowroom of monetary policy. A low deficit improves a country's investment rating. Fiscal policy may also influence monetary policy decisions through consumer prices – indirect taxes and regulatory prices. Fiscal policy is one of the fundamental means of economic government and the method of influencing the economy by budgetary means. The incomes generated in the economy are centralized and redistributed by means of this policy. Thus, in addition to generating tax revenues for the income side of the government's account, absorbing the redistributive function of the state, it finances the social sector, public administration and public services, and supports families that undertake to raise children, households and businesses struggling with income disparity, and entrepreneurs who especially fit into the government's objectives. Indirectly, it determines the amount of income the income owners are allowed to retain and the additional income deprived person can have access to, and raises the amount of funds required for the tertiary sector of the state. It ensures the payment of interest on government loans. Its long-term purposes include promoting the financial advancement of the national economy, businesses and families through the creation of optimum income positions. Fiscal policy is the sovereign means used for centralization and redistribution processes, with the government's political priorities and public finance policy principles in respect of the economy and society manifest in its technique, extent and character. Fiscal policy is necessary to serve the sustainability of the national economy's operation through the centralization, redistribution and regulation of financial processes (beyond the budgetary sector), and monetary policy is required to provide assistance to this function using its facilitating mechanisms (without interfering with its independence).

The most important means of fiscal policy is taxation, and in the case of a crisis, based on Keynes' model, the generation of additional demand moderates oversupply and then gets economic growth moving. In a crisis mode, fiscal policy primarily endeavours to increase taxation efficiency, quell black economy, and increase the volume of taxes collected.

Monetary policy, and its institution, the central bank, is the other significant branch of public finance policy. It had been involved in the refinancing of the real sector up to the mid-1990s and in financing the sovereign debt up to the turn of the millennium – with decreasing activity in Hungary.⁶ It gradually withdrew from these classical roles during the fulfilment of its obligations regarding accession to the European Union. However, the central bank's refinancing functions was performed without due circumspection, and on numerous occasions, financial disadvantage was caused.⁷ Fast withdrawal of the central bank from refinancing, almost without transition, was unjustified by the current level of the Hungarian economy and society, which would actually require an expansion in refinancing, particularly in order to strengthen Hungarian businesses and agricultural producers. The same can be said of the central bank's withdrawal from financing government debt.

The sovereign debt and the budget deficit did not decrease with the central bank's withdrawal from financing. Rather the reverse: financing them from the free market is more expensive, and withdraws funds from the social and economy development chapters of the budget. Moreover, significant financial risk is also involved, as in the past decades Hungary's sovereign debt was financed, for the most part, from abroad, *ab ovo* making the national economy vulnerable. Budgetary expenses did not decrease and did not become more sensitive as a result of channelling deficit financing to market funds. Deficit generation was due to system failures, and the method of its financing had no impact on it. Budgetary expenses exceeded budget revenues as a result of the crisis of state-owned companies after the change of regime, the weak capitalization and low tax payment capacity of start-up SMEs, and the tax benefits and exemptions granted to international companies. On the side of governmental expenditures, the budget⁸ was required to support the citizens who dropped out of the social divisions of labour and sank into debt in increasing numbers, and to finance the reorganization and consolidation of businesses and local councils that became inoperable.⁹

The exchange rate regime is selected by the government in agreement with the National Bank of Hungary. Since 26 February 2008, the exchange rate of the forint to the euro as a benchmark currency has been freely floating, and forint fluctuations are determined by market forces. The expansion of lending in forints after the turn of the millennium, and in foreign currency after 2002, mainly to households, and especially to dubious debtors, caused serious financial instability in both the household and the local council sector as a result of the 2008 exchange rate explosion, risk premium increase, job losses and income reduction. Due to the debt spiral, the previous managements of the National Bank of Hungary faced heavy social criticism. The household sector's foreign currency loan debts were consolidated initially by the new government, and then after 2013, by the central bank, and thus the financial uncertainty pressing the country was reduced.¹⁰

Article 41 of the Fundamental Act stipulates that the National Bank of Hungary is the central bank of Hungary responsible for monetary policy in the manner specified in a separate cardinal act (the Central Bank Act of 2011 and then of 2013). The primary objective of the MNB is to achieve and maintain price stability. Without prejudice to its primary objective, it supports the economic policy of the government, using the monetary policy instruments at its disposal. In terms of content, the Hungarian central bank's activity serves public good. This means that the statutory mandates are ultimately enforced in the interest of social and economic benefits to the public. The three objectives of the central bank include the moderation of inflation, boosting economic growth and maintaining financial equilibrium. It affects three areas: the general government, businesses and households. The central bank's operation has its effects felt at a macro- and micro-economic level and in a social context.¹¹ The central bank has become part of the public finance system.

The National Bank of Hungary is a member of the European System of Central Banks (ESCB). The MNB and the members of its decision-making bodies are inde-

pendent in carrying out the tasks and meeting their obligations conferred upon them by law, and may not seek or take instructions from the Government, the institutions and bodies of the European Union, the governments of its Member States and any other bodies, other than the European Central Bank. The mechanism that supports fiscal policy evolves from the central bank's on deliberation and responsible conduct pursued in the interest of the national economy, implemented without jeopardizing the primary objectives related to the maintenance of price stability.

In 2013, Parliament adopted a new act on the central bank, while the guarantees for the central bank's independence were retained (Act CXXXIX of 2013). In addition to the central bank's traditional duties, the new regulation tackles the scope and opportunities of efficient macro-economic duties and interventions, the related international cooperation and the supervision of the financial intermediary system.

The low inflationary level, which was made the primary objective of the central bank two decades ago, was considered as an indirect stimulus of economic growth. However, nowadays this correlation is questioned by economists. The central bank of the US, for example, has been working, since the 1970s, to achieve three goals and maintaining inflation at a low level is only one (and not the primary) objective, next to boosting growth and employment. In the monetary policy priority order set up by FED, the acceleration of growth and increasing employment have been given even more emphasis since the 2007 crisis. In order to mitigate the crisis, FED started extensive quantitative easing programmes. As a result, by the autumn of 2014, the US economy had recovered from the crisis, and so FED stopped quantitative easing.

From September 2012, the European Central Bank decided to refinance the government securities of the weakly performing Member States falling within the monetary union.¹² The Bank of Japan is also performing massive quantitative easing to boost the economy. The Funding for Lending Scheme launched by the Bank of England was also aimed at boosting the economy. The Bank of Argentina has been setting multiple central banking targets since March 2012, its objectives include ensuring monetary and financial stability, job creation, an economic development that creates equilibrium between incomes, and to a limited extent, the use of foreign currency reserves for financing sovereign debt.

From the spring of 2013, the underlying conditions were created for decision-making in the new type of central banking policy that followed the new world economic trends.¹³ In other words, the bigoted, normative, one-sided system of central banks' primary target regime focusing merely on inflation did not survive the crisis in Hungary either. The Funding for Growth Scheme launched by the National Bank of Hungary in the summer of 2013 is a significant element in achieving a breakthrough in growth. To this end, HUF 750 billion was made available in the form of credit limit in the first phase (in 2013) and HUF 2000 billion in the second phase (2014).¹⁴ The FfG Scheme is the organic continuation of the reliability and grading applied by the National Bank of Hungary in the course of cutting the refinancing base rate. As developments favourable for the scheme, by early 2013 price stability has been established and financial stability had also improved a lot in Hungary. From 2014 on, the country

was in the position to achieve permanent growth, and so the National Bank can contribute to the breakthrough in growth.

– By the implementation of the Funding for Growth Scheme, the National Bank of Hungary is actually regaining the refinancing functions it used to have in the early 1990s and had been terminated by the 1990s in respect of the real sector and by the turn of the millennium in respect of sovereign debt financing during preparation for accession to the European Union.

– The central bank base rate was cut to 3.8; 3.2; 2.1; 1.05 and 0.9 per cent on 28 August 2013, 27 November 2013, 23 July 2014, 27 April 2016 and 25 May 2016, respectively, as against 7 per cent recorded on 21 December 2011.¹⁵

– In February 2013, the expected total annual inflation was estimated at 2.8 per cent. Since 2014, inflation has been around zero. Inflation was at this low level for the last time before 1970.

In order to facilitate the activity of the National Bank of Hungary to strengthen monetary stability, with effect from 1 October 2013, the legislator merged the Hungarian Financial Supervision and its powers into the central bank.¹⁶ Thus micro-prudential regulation, influence and the underlying control facilities were added to the central bank's macro-prudential regulation, adjusted to the international and European Union trends. In September 2013, European Parliament included the 150 largest banks of the European Union under the European Central Bank's control. Since the crisis that erupted in 2007, fundamental changes have taken place in the approach to public finance, which were followed suit in Hungary after 2010.

In addition to the refinancing base rate, which had a beneficial impact on sovereign debt financing and commercial lending rates, and the Funding for Growth Scheme, the central bank's Self-Financing Programme¹⁷ facilitating the financing of sovereign debt also had a significant role in cutting the sovereign debt, which had represented nearly 10 per cent to GDP, between 2010 and 2017, and in the considerable reduction, approximately halving, of foreign currency denomination. By 2013, the Hungarian economy had been over the fiscal policy refashioning,¹⁸ and between 2013 and 2016, the monetary policy regime was also successfully changed. However, in order to achieve a breakthrough in competitiveness, further efforts need to be made in both fiscal and monetary policies.¹⁹

THE GOVERNMENT'S ROLE – IN A HISTORICAL AND SCIENTIFIC PERSPECTIVE

Due to its interdisciplinary nature, public finance as a scientific discipline includes politics the economy, using the legal instruments at its disposal, legitimizes an existing order and operates it in practice. Although the operation of a state may be compared to that of a joint stock company, primary profit interests may hardly be assigned priority in the organization of public services. The management type state operation manifest in the DMP²⁰ paradigm was ultimately born in a neoliberal economic system. In a mechanism that proclaimed and enabled unlimited automatism for market par-

ticipants. The state did not influence, control or sufficiently regulate the operation of “joint stock companies”²¹, and so without control, the company limited by shares functioning as the fundamental unit of the neoliberal production method failed.²² The transposition of the organizational and operational principles of this insufficiently regulated corporate form and their application to the operation of the state and public administration and public services was thus ab ovo doomed to fail. The unregulated joint stock company, the bank – as a system-specific element – proved a fiasco as a result of the operation of the non-regulating state. Corporate-level lack of regulation also deprived the regulator with a substantive right, i.e. the state, of regulation to a major extent. The minimum control and regulation of market participants and the corporate profiteering that arises in such a situation and the accumulation of informational asymmetries led to a crisis. By 1929–33 it had grown to an overproduction crisis, and by 2007–2008 an overlending crisis. The latter was manifest on the level of both the state and the population. Public administration and the public service system, improperly pushed towards enforcing market principles, the state struggling with system function disturbances and the unregulated market units all sank into a crisis.

András Tamás (2013) writes that every Liberalist effort made, using all kinds of argumentation, at restricting the opportunity of state action in the creation of the state’s own economic policy, financial or social system insists on the legal regulation enabling market globalization, on the deregulation of the law in force, on forcing global money market conditions in the public sector and on a completely new “legal” grounding. They insist on public administration that is mainly management, its acceptability is marketing and its truth is usefulness and profitability (for someone).

During the crisis the identification of those accountable for the problems was frequently demanded. The political situation was frequently criticized for too lenient rules created according to economic lobbies. Although in the USA extremely strict rules were introduced in 2002 (SOX), strict rules alone are incapable of guaranteeing long-term reliable economic operation. This is because close and efficient compliance with the rules is indispensable (Kecskés–Halász, 2013:216).

In a public administrative context, the DPM paradigm is the economic constituent of the New Public Management, a concept that has become outdated by now, as the active state has a strong supervisory and regulatory effect on the operation of public services and public utility companies. Thus after 2010, the government regulated the service charges of public utility companies that were privatized for the most part in the 1990s in Hungary. Then in numerous cases the state repurchased the companies. Thus, in respect of companies providing public services, centralization, nationalization²³ and, through them, the increased service of public good is a requirement and an operating principle. This is ensured by close government control and, in many cases, national ownership. The new theoretical model that replaces the DPM paradigm is CNPG²⁴.

Regarding Hungarian history, Lajos Lőrincz concludes that (Lőrincz, 2010a:39–45) whenever royal power strengthened and/or a powerful government was in office,

the country's security, international relations and economic position became acceptable, chaos, economic crises and isolation, on the other hand, resulted from languishing governments.

The choice between a strong and active versus weak and nodding governance is a long-standing conundrum. To quote academician Antal Mátyás (2007), Neo-Keynesian economists (representing a neoclassical synthesis) have a lopsided position on the operation of the automatism of the capitalist economy. In the short term, they dispute the stability of the capitalist private sector. According to Tobin and his co-author, Buitner, labour and capital underemployment is sufficiently frequent and permanent to justify objection to economic policy intervention (Tobin–Buitner, 1982:183). Modigliani takes a similar position: monetarists are wrong when they believe that the economy is protected against shocks to the extent that stabilization policies are no longer needed. With knowledge of data from the United States and other industrial countries, their claim that stabilization policies have not reduced, but rather increased problems is incorrect (Modigliani, 1988:126). The fact that the neoliberal method of production collapsed in the spring of 2007 and has not revived is a powerful witness to the highlights and references made by Antal Mátyás. According to András Kecskés, the laziness that is content with the momentary management of problems and market recovery is discernible in the process of the financial crisis that started in 2007 and went global by 2008. At the same time, for the purpose of long-term solutions, the strength required for altering the theoretical bases was insufficient. Even the crisis was insufficient to break the false liberal concept of self-regulation, based on a purely market approach, and the necessity of government intervention and involvement was mentioned only to the extent required for a fast aid to financial institutions (Kecskés, 2011:387, 363).

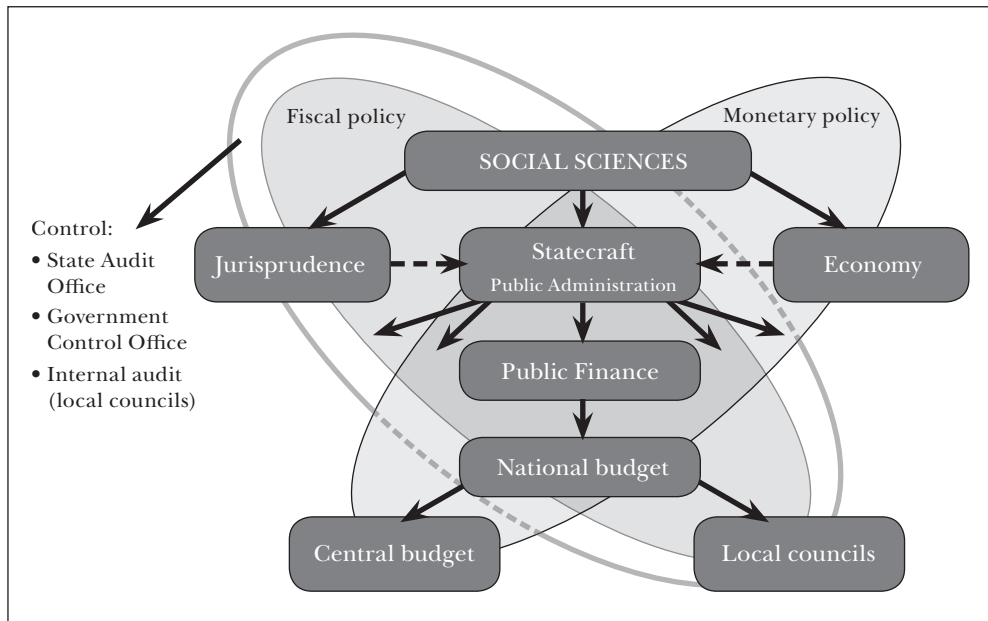
The world order organized on the basis of neoliberal principles and the neoliberal method of production built on the Washington Consensus sank into a crisis. For its mitigation, both in the United States and in Hungary active government and central bank policies came into the foreground, and so the economy regulating role of the “state” appreciated, while due to its assistance to fiscal policy, monetary policy (placed in a macro-economic perspective) was integrated in the institutional system of public finances. Monetary policy does not concentrate public funds (it is not a tax collecting authority), and yet, with the appreciation of its support to economic policy and with the outdating of its limited, anti-inflationary central banking role in the continental European area, especially in Hungary, it was assigned a new role. Increase in the importance of government instruments, in the complexity of central banking activity and its integration in the public finance system, in other words, the “state's” taking an active stance also increased the significance of statecraft, and more specifically public finance policy.

Statecraft is a multidisciplinary concept, as it includes all the disciplines dealing with the essence, organizational structure and operation of the state. In this perspective, special significance is assigned to the science of administration, law, economics, politics, sociology and history. Modern state studies are a combination of the afore-

mentioned disciplines, focusing on state operation and aimed at the analysis of efficient state operation at the cross section of the economy, law and society.²⁵ And its analytical methodology can only be implemented using a combination of economic, legal and other social sciences. The governmental and central banking instruments applied to overcome the crises caused by the market participants' unlimited, uncoordinated and less state-controlled operation (between 1929 and 1933 and after 2007–2008) increase the significance of intervention, and as a concomitant, the study of the state, including public finances.

Public finance is a category shaped by politics in the general sense, based on political principles, while the study of the national budget is a technical framework for the procedures concerning public finance and public wealth. Both are organic parts of statecraft. Both are organic parts of statecraft. They provide the economic and legal organizing principles of and framework for state operation. Using its specific instruments, legislators build rules and record the current practice in rules to facilitate continuity, efficiency, transparency and controllability.²⁶ As the role of the state appreciated, also in Hungary, a thoroughly grounded scientific methodology was required to assist its operation. The theory of the state, or statecraft, an interdisciplinary borderland of law and economics, comprises public law, public (government) finances, the study of the national economy, e-government, the academic specializations of public service professions, the organization of public administration, public administration management and public service communication.²⁷

Figure 1: Scientific framework for the taxonomy of new type Hungarian public finances



Source: Lentner, 2015a

The crisis of the neoliberal regime required an increase in the role and significance of statecraft. A strong and active state's public finance relations built on a good theoretical grounding and its transparent general government system provide the basis of sound state operation. Within the theory of the state, the study of public finances is an academic field that comprises various disciplines that have been expanding as a result of the crisis.

The banking mechanisms, institutions, and regulatory and supervisory structures, included in the category of banking, i.e. the parts traditionally falling within the fundamental discipline of finance are close to the domain of state studies. This is because without government and international involvement, cross-border regulation, efficient supervisory control, occasional budgetary support and influence, private banking is incapable of operating as a going concern.

From another perspective, the state is given a new role in crisis management: in order to stabilize conditions in the wake of a crisis that has evolved and escalated, it is a reasonable expectation that a strong market regulatory and controlling power should focus its efforts on the financial markets and the banking institutions. The coordination, influencing and controls of business organizations can only be successful in the framework of a well-organized economic governance, i.e. according to clear public finance and transparent budgetary sub-systems.

The successes that have been following one after the other in the Hungarian national economy since 2010,²⁸ the developments seen in the international arena since 2007 and the periods that can be characterized by successes in Hungarian history are always based on a proactive role undertaken by the state. Therefore the criticisms of the changes that have taken place in Hungary are correct in this context, and may not be directed at the manner of public finance administration, as the latter is adjusted to the international environment according to a logic that organically connects to and is built on the historical past while also meeting the current social demand.²⁹ Most of the criticisms may only relate to the speed of changes.³⁰ Nevertheless, it is a fact that the neoliberal market economy took the deepest roots in Hungary from among the countries of the post-Soviet area. Hungary saw the fastest setting up of an operating mechanism for a raw neoliberal market economy and a deregulated state not matching the economic and social endowments.³¹ Any change, or in other word, recovery from the crisis is only possible if a nearly organic condition is created, i.e. if the unfitting, inorganic elements are abandoned as soon as possible.³² This procedure started in 2010 with the creation of the management model built on burden sharing³³ and governmental economy engineering, which was then reinforced in 2013 by massive central bank support to make Hungary one of the fastest-growing countries that could simultaneously maintain financial stability.³⁴

CONCLUSIONS AND SUMMARY OF THE HUNGARIAN MODEL

Fiscal consolidation, which included setting things straight in the central budget and at local councils, and then with the involvement of the central bank, corrected things

for families and businesses indebted in foreign currency, managed to create stable financial and political conditions suitable for governance. Fiscal policy focuses on the expansion of solvent demand, primarily through income regulation. Widening the scope of taxpayers (international businesses, banks), adjusting taxes to tax payment capacity, and the moderation of the tax burdens of residents are simultaneously present in fiscal policy. Tax cuts for domestic participants (personal and corporate income taxes), a broad family benefit system and governmental economy engineering (use of government instruments to help market acquisition, economic policy of opening to the East and to the South) increase liquidity, revenues and capitalization, which, in turn, improve the national economy's value creation capacity. Ensuring the permanent relocation of foreign companies in Hungary (through the conclusion of strategic agreements) serves the balancing of economic growth. The government regulation of public utility service prices, and the repurchase of public utility service providers into national ownership show heavily statist features. The monetary policy means used after 2013 for bridging the gaps created by the crisis also follow the trend, are hyperactive and serve the public good in the broad sense of the word.³⁵

In a recovery from the crisis, increased government influence is justified. This can be evidenced by examples from the international arena and from the previous periods of the Hungarian economy (see the historical retrospection). The speed of changes in Hungary after 2010 is conspicuous, and this is explained – in a mental attitude arising from historical disadvantages – by the several centuries-long lack of independent national governance, a long series of unsuccessful economic reforms, wars of independence and efforts at secession and liberty, which are followed by increased demand for success. Success entails the improvement of the country's economic potential, which in turn leads to higher living standards and a stronger voice in foreign policy. In other words, the depth and speed of changes seen in Hungary in the past few years are driven by centuries-long failures and the resulting demand for rise and strengthening. An analysis of more recent periods reveals that the failure of the change of regime in Hungary (between the 1980s and 2010) and the negative developments feeding through to Hungary from the global crisis can only be offset by a quick transformation of the economic method and the educational approach to a methodology that differs from the previous one (Zéman, 2016:202–207). The quickest possible way to achieve results is to push the previous models that caused failure to the background. The fact that society supports these efforts – through the electorate's permanent political mandate – is a concomitant of the Hungarian model. Neither the Soviet-type planned economy built on excessive public centralization, planned economy, exclusive state ownership, nor the neoliberal market economy model that replaced it and was applied in deviation from the Hungarian requirements and peculiar features are viable in Hungary for the future. However, a model that exercises government influence reasonably and supports the operation of the various market participants and households holds out the promise of success. Simultaneously, we find economic growth, inflation at a historic low, budget equilibrium, and surplus in the balance of payments and the foreign trade balance.

NOTES

- ¹ This study was written in the Wekerle Sándor Scientific Workshop of Public Finances. National University of Public Service, Institute of Public Finance, Budapest.
- ² This had not been characteristic of FED even before the crisis, as it always had multiple monetary objectives and the struggle against inflation did not take precedence over other goals. After 2008, unemployment rose and boosting economic growth were given higher emphasis in the US central banking policy.
- ³ Including the European Central Bank, and the National Bank of Hungary after 2013. In terms of monetary objectives and instruments, FED has “never” had a single objective supported by assigned instruments.
- ⁴ See the list of the most important books and articles – published on this topic and worked out in conservative economic workshops – at the end of this study, well justified by the methodological pluralism following the crisis. See Csaba, 2013.
- ⁵ In the opinion of the author as a researcher. The monetary institution is not an organization meant to centralize public funds (it does not collect taxes and is not included in public finances), but it is part of public finances and an institution that supports fiscal policy while retaining its independence. Without interfering with its independence, it supports the government’s anti-crisis policy, and thus its activity performed in the interest of public good has a more complex dimension than a mere focus on the moderation of inflation.
- ⁶ For more details, see Kolozsi–Lentner, 2006:39–41.
- ⁷ The termination of longer-term, preferential lending to SMEs based on the central bank’s base rate weakened their competitive positions and even their survival chances. Financing the total government debt from the free market resulted in an increase in interest costs and unreliability due to external financing.
- ⁸ With the central bank’s contribution, as for example, in the case of families having foreign currency loans.
- ⁹ For a description of the public finance system during the change of regime, see Lentner, Csaba: Main Propositions of the Methodological Part (Chapter I) in Lentner, 2013a:518–526. and Lentner, 2014b. For more details on the comprehensive taxonomy of consolidation, see Lentner, 2015c:447–461.
- ¹⁰ For more details, see Lentner, 2015b:297–311.
- ¹¹ On the level of households, for example, by making part of the central bank’s reserves (nearly EUR 10 billion) available for the conversion of foreign currency loans of families to forint loans. Replacement of the loans of businesses indebted in foreign currency with forint loans in the framework of Funding for Growth tier 2, and reducing government debt and the interest on commercial loans by cutting the refinancing base rate.
- ¹² Actual actions were only taken in 2015 and later. For more details, see Lentner, 2015e.
- ¹³ A new management was appointed at the head of the central bank, and in addition to the standards prevailing during the previous decades, they also promote economic development and financial stability.
- ¹⁴ USD 1 is worth approximately HUF 287.66 at the MNB’s rate on 6 February 2017.
- ¹⁵ The central bank’s base rate cut started after the 2010 general elections and expressly from the date the new government delegated members to the Monetary Council.
- ¹⁶ For further details see Kálmán, 2015:125–138.
- ¹⁷ For further details see Kolozsi, 2015:290–305.
- ¹⁸ Hungary was released from the EU’s excessive deficit procedure, and since then its budget deficit has been permanently below 3 per cent.
- ¹⁹ In fiscal terms, in order to “favour” domestic businesses on a wider scale, and in the case of the central bank, promote market-based lending after the phasing-out of the Funding for Growth Scheme, reduce lending risks and provide an impetus to economic growth through lending to SMEs, the National Bank of Hungary launched the Growth Support Scheme to assist banks in transition to market lending. The Growth Support Scheme comprises the phasing off stage of the Funding for Growth Scheme and the Market Lending Scheme. The direct support mechanisms of the Hungarian public finance system should be replaced by indirect instruments, and the “reinforced” economic participants – indirectly

supported by the public finance system – should be able to meet the challenges among market conditions. Compare the period after the Quantitative Easing (QE) in FED’s case.

²⁰ Decentralization, privatization and management are the elements of the outdated New Public Management.

²¹ In other words: the operation of banks and businesses.

²² US sub-prime mortgage market crisis, and the mass bankruptcy of banks, production and service providing companies. The lack of market coordination and efficient control. Greed, rapacity and the subordination of corporate operation to considerations related to profit on the markets left without regulation. See Bánfi–Kürthy–Bánfi, 2011:191–210.

²³ By analogy of the French etatist state model.

²⁴ The author’s definition: Centralization, Nationalization, Public Good.

²⁵ This only applies to those parts of the mentioned fields that tackle state operation, fiscal, monetary and control procedures. To mention an incorrect example: world economy or micro-economy transferred from business sciences as curricular items are not part of state studies, unless they focus on state operation and the related effects.

²⁶ This may be performed through motions made by representatives or government submissions, which may then become statutes. Or it may be coded on chiselled diorite monoliths (Hammurabi), but the essence is the same. They are technical instruments in the operation of the state machinery. The economic dimension of taxation is a technical instrument, as taxpayers basically pay taxes according to the fiscal requirements set by public finances rather than their economically optimum tax payment capacities. The incumbent political force and its intent and values are the ultimate power that shapes public finances. Thus this is no organic bottom-to-top procedure, just as “political society is in no way an outcome of a contract between individuals making efforts at association. There has always been a social order from the very beginning...” (Abélés, 1990). This means that things are predetermined. Law and economic management track, arrange the order into rules, and execute.

²⁷ This list does not endeavour to be exhaustive, but gives an overview of the new kind of thinking.

²⁸ Similarly to the prevention of a state bankruptcy, create financial stabilization, and then restarting economic growth, increasing employment and solvent demand, cutting sovereign debt, economy management without IMF loans etc.

²⁹ In other words, they are implemented in adjustment to the country’s economic and social past and present demand, while also following international examples.

³⁰ This is my subjective position.

³¹ Hungary was kept above the water by loans granted from IMF, the WB and the ECB in the amount of USD 25 billion. Between 2008 and 2010, essentially “the crisis stagnated”.

³² I have never considered the complete in-depth introduction, without any transition, of the neoliberal market economy of the Anglo-Saxon type, or at least the one that evolved there, and experimenting with it for two decades, adjustable to the Hungarian environment that wished to change regime at the end of the 1980s (a collapsed Soviet-type planned economy in a country previously chopped to one-third of its territory after centuries of Habsburg influence and despotic or subordinated public finances, and no longer than only a one thousand and one hundred years of presence in the Carpathian Basin in a public administrative space of the Western model preceded by thousands of years of presence in Asia, all these traceable in recollections and in genetics).

³³ In a simple language “burden sharing” is the levying of taxes on international companies and banks according to their financial capabilities.

³⁴ Growth and simultaneous (financial and price) stability may provide good basis for the permanent sustenance of the model that has been built, especially if the social attitude (legitimation – Rodrik’s model) remains supportive.

³⁵ The central bank’s corporate responsibility has also changed, and has been expanded. In a broad sense it can be said that it serves public benefit using the monetary instruments at its disposal, its loans for growth and its self-financing scheme. In this topic, see our studies on commercial and central banking CSR: Lentner–Szegedi–Tatay, 2015a:95–103. and Lentner–Szegedi–Tatay, 2015b:35–47.

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