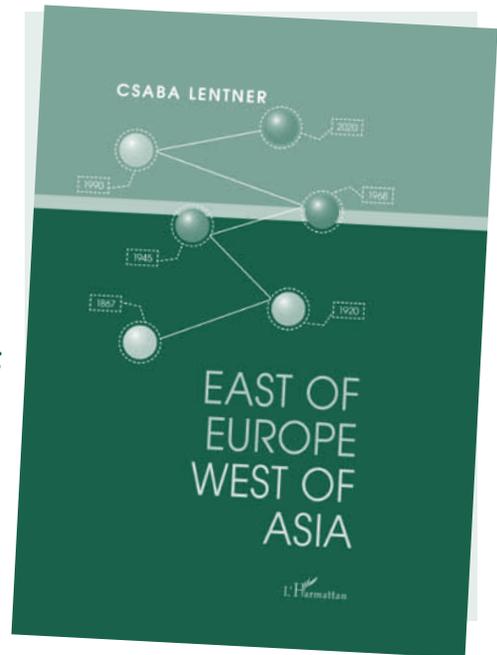


Csaba Lentner

East of Europe, West of Asia

*Historical Development
of Hungarian Public Finances
from the Age of Dualism
to the Present*



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Hungary's role on the international stage – be it political, economic, or security or constitutional development-related – has appreciated greatly since 2010, and as a result, the country has become the focus of an increasing number of international analyses. In order to understand – as a foreigner or even as a citizen – the decisions of a state's policymakers, it is not enough to be familiar with the current situation and the symbiosis between factors and actors; an awareness of the history of the state's development is an essential requirement along with the retrospective interpretation of the causative correlations through the genealogy of this history. With its clear structure and summarising/interpretive content, Csaba Lentner's book under review provides a comprehensive overview and serves as a foundation for readers who wish to understand the development of Hungarian

public finances from the age of dualism to the present.

Csaba Lentner is a university professor, head of the Public Finance Research Institute at the Faculty of Public Governance and International Studies of the National University of Public Service. In recognition of his work, he has received the Sándor Wekerle Scientific Lifetime Achievement Award as well as the Officers' Cross of the Hungarian Order of Merit. The book takes the author's massive knowledge-base and a significant literary background as its foundation. At the same time, the book's easy-to-understand language, interdisciplinary approach and its teacher-like attitude coupled with deductive reasoning allow the reader to navigate the historical labyrinth of economic development and public finances. The wide spectrum of the author's toolkit is to be noted, which

presents public finance processes embedded in the current state of the legal environment, political sciences and social development. In his recommendation of the book, Professor Ernő Huszti accurately points out that the author offers readers an analysis compiled and researched with extraordinary care, bravely relying on the works of renowned researchers of the topic such as István Széchenyi, Ignác Romsics or Gyula Kautz. The author provides readers with a complex public finance overview combining interdisciplinary approaches, giving an in-depth insight into the Hungarian state's economic role and regulation over the course of the past 150 years.

One of the greatest merits of the work is the fact that its structure provides solid and inclusive information on the topic also to readers outside of the academic community. At the same time, the book's structure is somewhat unbalanced, with the author's professional partiality to modern, post-regime change periods quite perceptible; indeed, the author's supporting/criticising spirit is more dominantly present in the interpretation of that era.

STRUCTURE OF THE BOOK

The book's logical framework with its clear structural breakdown is impressive and it manages to uphold one of its key virtues from beginning to end: the easy-to-understand and interpretive presentation of the building blocks relevant to the development of the state.

It presents the economic administrations of five consecutive eras. The author purposefully avoids interpretation alongside an artificially rigid methodological template; instead, it presents to readers the key characteristics of the era in order to help them build a bridge for themselves to progress to the next period. At the same time, these characteristics constitute a system that leads the reader towards the

author's clearly defined objective. One of the primary goals of the author was to describe and draw parallels between the instruments of state intervention in specific eras, and to show how they affected other economic participants. Similarly, a central element of the analytical system overarching the various eras is the correlation between the *modus operandi* of the National Bank of Hungary and the fiscal policy of the government.

Separate chapters are dedicated to the five periods examined at length in the book:

- ① the age of dualism following the Austro-Hungarian Compromise,
- ② the decades of consolidation between the two World Wars,
- ③ planned economy under strong state control,
- ④ the transition to a market economy and the decades following the political transition,
- ⑤ the post-2010 decade of active state involvement.

At the beginning of each chapter, the author provides a point of reference for the reader in the form of a brief introductory thesis, showing the historical events and economic challenges that prompted the Hungarian state to set out the trends of public finances. These introductory summaries and the first sub-sections of these chapters also make it clear that the book is not solely aimed at a Hungarian audience, as it also attempts to present fundamental concepts and historical events (known to Hungarian readers) in a context that is easy to comprehend even by foreign readers. The first topic-defining chapter and the final theoretical chapter offering a systematic summary provide a framework to the chapters devoted to the presentation of specific eras.

CHAPTER 2: STATE-CONTROLLED ECONOMY IN THE AGE OF DUALISM (1867–1918)

In the very first era-presenting chapter, on the one hand, Csaba Lentner outlines the historical

and economic events and interests leading to the Compromise – with special emphasis on the circumstances of establishing financial independence – and, on the other hand, Hungary’s search for a position within the Austro-Hungarian Empire. In the chapter the author guides the reader through the period of neo-absolutism preceding the establishment of the Hungarian administrative system of public finances, and the decades of the consolidation following the Compromise. It presents István Széchenyi’s credit plans and accurately concludes that one of the major obstacles to the development of the Hungarian economy before the Compromise was the underdeveloped credit system. Travelling through the steps leading to Hungary’s financial independence, Csaba Lentner presents Kálmán Széll’s years of budgetary surplus, as well as the positive effects on society of the public finance policy of the Wekerle administrations. In addition to industrialisation, the modern banking system established after the Compromise and the structural shortcomings thereof are also emphasised. Through historical context, the chapter focuses on the importance of active state intervention, which ultimately led to decades of development.

CHAPTER 3: ECONOMIC ADMINISTRATION BETWEEN THE TWO WORLD WARS, WITH PARTICULAR REGARD TO BETHLEN’S POLITICS OF CONSOLIDATION

The author gives an account of the decades of political and economic consolidation following the World War I relatively sparingly, also showing the development of the financial sector and the role of the central bank, which gained independence during the Bethlen era. Recognising the topic’s limitations and boundaries, the author approaches the political and economic challenges of the post-Trianon period with caution, with only a rough outline of the land reform and the accompanying social changes, as well as the

limited room for manoeuvre afforded by the new geopolitical features. As a testament to the author’s restraint, he succeeds in striking a balance between the benefits and failures of the Bethlen policy presented in the analysis. In the chapter the author points out an economic problem that is to return in a later period – the rise in public debt and the inappropriate use of credits – which, combined with the 1929 global economic crisis set Hungarian economic development on a wholly new path. In addition, he also details the continuous deterioration of central bank independence – founded in the period under review – in light of the military development reform of the 1930s. In the final section of the chapter the author describes the 1938 Győr programme while attempting to break free of its political aspects in favour of presenting the wide-ranging economic development aspects of the programme through a public finance focus.

CHAPTER 4: THE MAIN FEATURES OF PUBLIC FINANCE AND ECONOMIC ADMINISTRATION IN THE PLANNED ECONOMY

The chapter emphatically touches on the 1945 land reform, as well as the culmination of the state’s economic role between 1946 and 1947. The author explores the winding down of market economy elements and their replacement with the regulatory environment of planned economy. The reader gains a clear and detailed picture of how the Hungarian economy’s driving sectors were transformed following Soviet-style industrialisation and the revolution of 1956. The central element of the chapter is Socialist Hungary’s revised economic governance reform – the new economic mechanism of 1968 – which, in the author’s assessment, was merely a revision of the economic plan rather than a comprehensive, system-encompassing economic reform. In the author’s opinion, the new economic mechanism introduced such

innovations in methodology and economic governance that are retained to this day. The economic objectives set out prior to 1968 remained unchanged even after the adoption of the mechanism. The author concludes that the mechanism brought about positive changes mainly in agriculture: the sector's new regulatory environment was better aligned with market needs. The chapter details the deficiencies of the banking system – which became centralised and transformed into a single-tier system following the Soviet example –, such as the impact of the lack of financial discipline on the economy. It also presents how the 1968 reform influenced the evolution of the two-tier banking system of the 1980s. The author describes the background of the economic downturn starting from the 1970s, illustrating the decline with comparative macroeconomic data.

CHAPTER 5: ECONOMIC CONDITIONS OF TRANSITIONING TO A MARKET ECONOMY

The chapter highlights the fiscal difficulties arising from the radical retrenchment of the state's economic role and the transitioning into a market economy. Csaba Lentner demonstrates the fluctuation of macroeconomic data from the 1990s with sufficient conciseness and restraint. The sub-section presenting the process of European integration through EU grants and assistance may leave the reader with a sense of lack.

The author describes the changing legal environment addressing, for example, the effects of the regulation on the transformation of business associations and economic operators. This shift in environment allowed for the privatisation of loss-making and indebted state-owned companies. The agricultural sector did not remain unscathed by the regulatory effects of the political change either, and the book expounds on the changes in ownership structure and the resulting trends

in employment. The first decade of the new millennium was characterised by the easing of fiscal control and an unstable macroeconomic environment that gave rise to the 2007–2008 economic crisis. The author interprets the accompanying austerity measures by the government with a critical tone.

CHAPTER 6: THE ECONOMIC ADMINISTRATION AND COMPONENTS OF ACTIVE STATE OPERATION AFTER 2010

In Chapter 6, the reader can observe the most impressive analytical juxtaposition of the book, which is intended to present and perceptibly justify the recovery from the internal economic governance crisis criticised by the author. The book reaches back to the foundation of the changes – namely, the new Fundamental Law –, serving as a substantive and intellectual introduction before presenting the innovations of the fiscal policy to the reader. Under the joint impact of multiple factors, he attributes high public deficit and increasing public debt to the inadequate system of taxation in place prior to 2010. One solution to these obstacles to economic development was the comprehensive tax reform, an instrument of which was the introduction of the flat-rate for personal income tax. In the author's judgement, the solution to a lasting recovery from the economic crisis lies in the state's strong regulatory attitude after 2010, as well as the establishment of full employment and competitiveness. The book methodically presents the circumstances of establishing macroeconomic stability; however, the sub-section that touches on financial relations with the European Union only peripherally may be found wanting. The enforcement of EU legal harmonisation in the field of financial administration is another significant issue that the author only briefly touches on. Resting on new foundations and relying on a wider set of instruments, monetary policy

is important and essential component of the crisis management policy of the government. When describing the new economic model, Csaba Lentner also strives to substantiate the economic results, and this is particularly apparent in his presentation of economic crisis management programmes.

CHAPTER 7: THEORETICAL, SYSTEMIC SUMMARY

The final chapter of the book outlines a thematic plan that sets parallels between the monetary and fiscal toolkits of the eras presented. The reader gains an insight into the economic value-set required, in the author's opinion, for the operation of a prospering and stable state. Active state intervention, budgetary discipline, a fair system of taxation promoting the operation of the national economy, well-organised public administration and a central bank with a stabilising role are all factors that are essential for a well-balanced economy. The author draws clear parallels between the age of dualism and post-2010 years, and concludes that the foundations of a successful national economy were laid down by political actors in both periods under review.

SUMMARY

The book provides the reader with an impressive overview of economic history, and thanks to the interdisciplinary approach to the various eras, it may prove to be valuable literature for both experts active in the economic sector and laymen with an interest in other fields. The decidedly optimistic tone of the final two chapters, however, somewhat departs from the style of the chapters presenting the 19th and the 20th centuries, where the author is more reserved in his assessment of the totality of state intervention and economy-shaping factors not under direct state influence. The

economic effects of globalism are assigned considerably less emphasis in the sections presenting the years following the 2007–2008 economic crisis, even though they have a substantial impact on the performance of the national economy. Interestingly, even the cover of the book reflects this optimism for the future – the bubble symbolising current economic conditions is shaded in a natural green, while the bubbles representing post-1945 periods are all given less vibrant colours.

The publishing and editing style as well as the layout are also commendable: they serve readability yet do not hide the book's "textbook-like" structure. Impressively, the blurb on the book cover manages – in only three concise paragraphs – to sum up Hungary's economic history and pique the reader's interest simultaneously.

The book's title – East of Europe, West of Asia – is not easy to interpret based purely on the book's content: the European context is given, but at the same time, the reader does not really find out more about Asian models, economic history or public finance development. The success of any book owes much to its title, which should draw the reader's attention, but it can also backfire if it fails to reflect the actual content. Of course, Hungary and its geopolitical location as defined by the book's title may be well known to Hungarian readers, but foreign layman readers may need additional assistance in interpretation. By contrast, the book's subtitle Historical development of Hungarian public finances from the age of dualism to the present – which incidentally is also the main title of the Hungarian edition – is a faithful reflection of the book's content and succeeds in offsetting the interpretative discrepancy caused by the title.

Viktor Milanov

E-mail address: milanov.viktor@gmail.com