

IDEAS FROM THE HISTORY OF DOMESTIC FISCAL POLICY

Questions and answers based on the monograph of Csaba Lentner¹

Ernő Huszti²

ABSTRACT

Dualism and the resulting economic upturn played a key role in the history of the development of Hungarian statehood, including budgetary and monetary matters. In his work entitled “*East of Europe, West of Asia – Historical development of Hungarian public finances from the age of dualism to the present*”, Csaba Lentner presents the over one-and-a-half-decade-long period after the Austro-Hungarian Compromise of 1867 during which the financial administration of Hungary, including the country’s monetary policy, became completely developed. The author highlights the events on two timelines: on the one hand, as a process, on the other hand, highlighting main periods in themselves. In this manner, the reader’s attention is closely “tied” to the book, as the author undertakes to interpret relations which evolved in the past and are interrelated. The proof-reader of the book joins in with his ideas in a discursive manner.

JEL codes: B10, E42, G01, G21, H20, H30, P00

Keywords: fiscal policy, dualism, socialist planned economy, transition to market economy, active state model, Hungary, European Union

1 FOUNDATION IN THE HISTORY OF THEORY

The latest book by Csaba Lentner provides a broad overview of the period from the establishment of domestic public finances, through development full of difficulties, to the present. A detailed presentation of the past is new for many of us,

1 LENTNER, CSABA (2019): *Az állampénzügyek fejlődéstörténete Magyarországon a dualizmustól napjainkig – Kelettől Nyugatra, Nyugattól Keletre* [East of Europe, West of Asia – Evolution of Public Finances in Hungary, from the Age of Dualism to the Present Day]. Budapest: L’Harmattan Publisher, 280 p. ISBN: 9789634145103.

2 *Ernő Huszti*, Honorary University Professor, Doctor of the Hungarian Academy of Sciences. E-mail: husztierno@t-online.hu.

as, unlike historians, we study the present instead of the past. However, the author points out in detail that, despite its “dormant state” due to the early foundation of the state and the permanently primitive conditions, Hungarian monetary history was very edifying. Moreover, it was sometimes, for example, in the times of King Matthias, very successful even in European comparison. As it is indicated by details later, the history of Hungarian finances was rather characterised by hard periods than by successful ones for a long time. That is why providing a detailed and objective overview of Hungarian finances over the past decades is so important. What I mean by that is the objective analysis of the two financial subsystems (fiscal and monetary policies), the development of their relationship and the ways as well as the mode of action of their practical implementation.

I have to note that although the author is clearly committed to fiscal theories and practice and considers monetary relations to be important, I rather believe in the cooperation of the two financial subsystems, fiscal and monetary policies of equal rank. Obviously, my comments reveal my point of view. At the same time, I think that the increasing role of the state in economic policy and the appreciation of the relevant public finances are inevitable. As the central bank is not only the “bank of banks”, but it is also the “bank of the state”. As such, it manages government revenues and expenditures and provides loans for the budget directly or indirectly. In view of my previous statements, it can be said that in the early 2000s, “The dependence of central banks on the government was different, irrespective of the way of its declaration. (...) the central banks supervising the banks always try to implement the economic policy decisions of governments in practice, subordinating their activity to the governments. (...) In this way, more and more countries use the tools of monetary regulation, as it allows relatively flexible application and does not require parliamentary authorisations. Based on the above, government decisions get into the scope of and are implemented by the central banks, which are independent to varying degrees, in different countries.” (Huszt, 2001-2002:55) It should be noted that those who support the principle of the central bank’s independence believe that in the absence of democratic authorisation by the voters, central banks are allowed to take only technocratic decisions instead of political decisions which have to be taken by elected politicians authorised by the parliament. It is true even nowadays that the debate of the representatives of the fiscal and monetary policies have largely contributed to the development of the appropriate role of financial policy, including the roles of the budget and the central bank, as their exaggerated statements and mutual criticism drew attention to the weakest points. Consequently, in principle, well-balanced financial policy can ward off the exaggerations of such theories. However, based on experience, either one or the other theory becomes temporarily prevailing in the developed countries, depending on what economic policy tasks are prioritised (Huszt, 1998).

In my view, the aforementioned practice causes several difficulties if lending to the budget is of “coercive nature” for the central bank. As in this case, *mutatis mutandis*, the crowding out effect applies, which means that the volume of loans that can be provided to the other sectors of the economy is decreasing. Although central banks “officially” publish the opposite, in general, they do not rigidly refuse to provide loans for the budget within reasonable limits and fulfil government expectations. However, we must warn the government of possible dangers as well as the compensatory measures required. In this way, the preliminary monetary assessment of major budgetary decisions becomes especially important. As Lentner wrote: “Central banks do not strive to supersede, prevent anything or implement their own “narrow-hearted” approach at any price. It is all about supporting the relevant field in a special way. Moreover, central banks feel that it is their essential commitment to do so.”³ On the other hand, central banks have to prove their position convincingly and provide a right solution at the same time.

Applying the general rules of international monetary policy to the activity of the domestic central bank is as wrong as considering domestic practice to be something that other international central banks should take over. Convergence is obvious, but each country has to “work hard” for the monetary and fiscal policies which most appropriately fulfil its own criteria and can be regarded as successful.

At the same time, the global development of modern monetary theories and the variation possibilities of the adequate new applications have to be followed. The central bank shall follow the more and more widespread discretionary budgetary practice as direct state intervention, in the framework of which the budget takes over the financing of national economic, scientific, technical, etc. risks which market participants are already unable to finance.⁴ Such risks have substantial impact on the price system and thus on monetary balance.

In my opinion, in the light of the above-mentioned circumstances, the conditions and frameworks of lending by the central bank have to be more strictly treated. As it is known, the payment account of the budget (government budget account) is managed by the National Bank of Hungary. By its nature, revenues arrive periodically (usually quarterly, in the form of taxes), while expenditures are due almost on a daily basis. Consequently, the central bank tries to overcome the deficit on the payment account of the budget by lending, which does not comply with the law on the central bank. The non-payment of the current budgetary expendi-

³ Op. cit. p. 56.

⁴ According to professional literature, public work, unemployment benefit, corporate tax, progressive income tax, etc. are discretionary budgetary instruments. The parliament or the government regulates them on the basis of economic cycles (see HUSZTI, 1998).

tures would lead to serious economic difficulties, therefore the negative balance of the payment account of the budget is regulated by the law. The National Bank of Hungary shall take into account or shall not even exceed this rate of balance.⁵ Of course, it sometimes results in late budgetary payments, so that charges of covert deficit financing can be avoided.

In the light of the above, there is increased interest in and more attention is paid to financial issues and connections. In the daily press, we can meet terms such as fiscal and monetary policy, financial balance, interest rates, investments, exchange rates, securities, etc. and so on, though they are not always used correctly in a professional sense. Moreover, terms of monetary theory also appear in everyday conversations, which also indicates the spread of financial literacy. Why have these terms become part of the ordinary language? The answer is simple: because financial literacy has evolved in public life and money owners meet these unknown financial phenomena affecting their person and business on a daily basis. Currently, perhaps the most direct and personal of such phenomena is the gradual accumulation of a large amount of cash by money owners, mainly the general public, who seek to preserve the value of their money, receive appropriate yield and look for security. In order to achieve these goals, they rely directly or indirectly on the support provided by professionals and financial institutions.

One of the actual problems our experts are dealing with is by what means the huge amount of cash kept in the “pillowcase” by the general public could be successfully involved in the financing system. First, we should decide in which phase of the economic cycle we are in. It seems to me that complicated and often unclear fiscal methods (e.g. issuing long-term Treasury bonds) reach only those money owners who are able to invest large amounts, but fail to reach people with medium or smaller savings. But certain “pitfalls” are still recognizable. The two most important pitfalls are the limitation of the amount for which the bond can be redeemed prior to maturity as well as the clearing of its exchange rate, i.e. at what price the bonds is bought back before the maturity date. In my view, it is already clear which goals cannot be achieved, however, the solution has not been found yet. I am afraid that it will enforce the observable increase of the central bank’s current prime rate and that of deposit rates offered by commercial banks.

5 PULAY, GYULA – SIMON, JÓZSEF – SZILAS, ISTVÁN (2017): A költségvetési maradvány mint költségvetési kockázat [Remaining Budgetary Balance as a Budgetary Risk]. *Pénzügyi Szemle*, 2017/4, 431-444.

2 ABOUT “OPTIMAL” ECONOMIC AND FINANCIAL POLICY

The aforementioned ideas lead to the correlations between the development and relationship of optimal economic and fiscal policies. The available natural and monetary resources, as well as the amount of external financial resources are given even for the wealthiest countries, determining the economic and financial policies they have to develop.

As economic policy is part of applied economics, the country has to know past processes accurately so as to be able to create a vision. Consequently, in different historic periods different economic and social expectations had to be fulfilled, based on the decision of the country's own government, a market-oriented decision or under pressure. In the light of the above, the main question is how “optimal economic policy” can be developed, what its characteristics are and what proves its correctness and usefulness. Is there any general recipe at all? Or does each country have to work hard for its implementation and efficiency? Or should the countries accept the relevant classifications applied by economists? To what extent can the unique solutions of individual countries, which from the general approach be accepted or rejected?

As seen above, we should find the answers to several important questions. Such answers are influenced not only by the views of researchers, but also by the subject, time and economic “embeddedness” of the research. What are the criteria of “optimal economic policy” at all? Are they long-lasting or do they change from period to period? What are the consequences of external effects?

As I mentioned earlier, “Financial experts tend to be proud of being practical rather than theoretical people. Yet a lot of statements of historically established monetary theories are - usually unintentionally and rather spontaneously - reflected in their actions, views and decisions. (...) Certain statements of monetary theories become part of practice almost imperceptibly...” “At other times, theoretical truths are proven by practical experience “without any intriguing” and there is no need for drawing forced parallels” (Huszti, 2001–2002).

Earlier research principally covered the analysis of the government's budgetary activity. Later, finance dealt with all activities related to internal revenue. In my view, “finance is a complex science that covers the theoretical and practical relationship between economic and financial policies, all financial activities of the state, the operation of the monetary system (banks, insurance companies and other financial activities, etc.), i.e. the connections between the two subsystems of financial policy (fiscal and monetary), the conditions for the functioning of the money and capital markets, the finances of companies, enterprises and business entities, the activities of other economic operators, as well as the generation and use (e.g. for investments. etc.) of income and accumulations” (Huszti, 1998).

Within the huge system of finance, macro- and micro-level analyses have gradually evolved and have almost become independent, prioritising their own characteristics. As a result, theory and practice have necessarily become independent, of course, in accord with each other. Theory should not dispense with changing practical requirements, while practice should not reject new theoretical approaches. Of course, it does not mean that different schools did not or could not form their own opinion. However, it only lends colour to prevailing theories and practical solutions. All this is well reflected by the stricter, deeper and more functional character of the views on tax policy:

- Based on *Adam Smith's* recommendation, four principles should be considered when developing the appropriate tax policy: clarity, cheap collectability, easy affordability and fairness.
- At the same time, alluding to obviously unfair practices, *István Széchenyi* wrote the following: “As far as possible, everyone should bear the burdens of the country fairly and proportionally, but should enjoy the benefits arising from it in the same proportions.”
- According to *István Hetényi*, it can also be considered to be the criticism of the economic system: the tax system
 - a) should be equitable (fair), should not distort the optimal allocation of production factors evolving in an efficient market;
 - b) should be flexible, should stabilise short-term economic policy;
 - c) should be clear and guarantee equal treatment;
 - d) taxes should be cheaply collectable and fair (Hetényi, 1996).
- As far as the definition of the most modern domestic principles is concerned, Csaba Lentner believes that proposals about solving actual problems related to the tax exemption of subsistence level income, the unviability of business associations and the rules of limitation are arguable (Lentner, 2017).

In order to implement fiscal policy, “interoperability” between the budget and the central bank is a natural demand and an unavoidable practice. In the light of the above, it is a matter of course that central banks try to solve certain monetary problems by using budgetary instruments and vice versa. For example, it is enough to mention one of the main problems of the central bank: the huge volume of cash accumulated by the citizens. As the central bank insists on the current base rate, the budget is trying to decrease the volume of cash by issuing government securities promising higher interest rates. However, the banking system “quietly, but more and more frequently” warned about the dangers and consequences of the covert and untraceable financing of budgetary deficit by the central bank.

The early, conservative fiscal theories intended to cover the deficit by increasing taxes and rejecting borrowing, while fiscal theories evolving around the turn of the millennium accepted that the deficit was covered from loans borrowed from the central bank. At the same time, according to such fiscal theories, the possible unfavourable effects of this practice on taxes, income distribution and internal savings were troubling. They wanted the implementation of this practice to be subject to parliamentary authorisation, though there were not any doubts about its approval.⁶ Of course, the representatives of these theories were aware of the fact that this practice was equal to non-central bank currency issue, to which no macro-level requirements apply. The central banks' response included the strict observance of loan maturities, refusal of extension and providing a legal framework for prepayment.

It can be established that an increasing proportion of the financing of budgetary deficit is covered by indirect and non-central bank methods. The advantage of this is that the outstanding money supply in the national economy is not increased, but redistributed instead. The budget owes other money holder groups (citizens, financial institutions, companies, etc.), which also brings about a kind of income redistribution and influences the change of budgetary deficit. At the same time, a special "yield competition" evolves among government bonds, stocks, Treasury bills, deposit rates and the securities issued by financial institutions. All this leads to further income redistribution, which also increases the "competition for savings" and strengthens "interest rate expectations".

The "who defeats whom" competition is affected by the short-term economic trend, as well. As it was mentioned earlier, "In the case of recession, when solvent loan demand is lower than lending ability, commercial banks may prefer buying government securities, as it allows the safe allocation of their resources. In this way, at least the costs of funds are recovered. (...) However, during economic boom, government securities can be purchased only at the expense of satisfying their clients' credit demand. In this case, banks - if they are not forced to buy government securities - tend to prefer their clients." However, if they have to purchase government securities under budgetary pressure, borrowing becomes very expensive for the state owing to high interest rates (Huszti, 1998).

⁶ For example, in France, the government had a revolving credit facility at the central bank at the turn of 2000. The government and the governor of the central bank took ad hoc decisions on its use. Its use also required parliamentary approval.

3 ABOUT THE APPRECIATION OF FISCAL POLICY AND ITS HISTORICAL DIMENSIONS

In short, nowadays we can witness the appreciation of financial policy, which cannot avoid the coordination of a well-balanced fiscal policy with the policy of the central bank. In view of the above, Csaba Lentner is right when he raises several important questions, including the following: Where should the economy be heading and with what kind of social and economic instruments? To what extent can the set of instruments supporting the state's economic development activity be considered "ethical"? Where is the role of the state necessary or perhaps essential? When does it become unreasonable and oppressive for the economy? Where are the limits of centralisation? How far can governments go regarding the centralisation of power?

The questions raised by the author are not only right, but also actual. Unfortunately, we cannot find clear answers to them even in the huge volume of literature reviewed. In my opinion, a satisfactory response can be found at the end of *Part 1*, in *Chapter 7*: "... the crisis management methods used in Hungary from 2010 are justified by the intention according to which centralisation as well as stronger state influence and control in the economy are not goals, but "mere" instruments in consolidation" (Lentner, 2019a). The financial government should set uniform, positive fiscal and monetary "expectations" which economic operators are able to accept. However, it depends on "space and time." As a result of the competition for providing more favourable interest rates and yields, the budget can gain advantage over financial institutions only if its interest rate and yield offers regularly exceed those of financial institutions. In this case, financial institutions make lending more expensive due to decreasing resources, which triggers an interest rate spiral that provably brings about the loss of clients and markets. The situation is further complicated by the fact that all this depends on space and time, and its effects are significantly different during recession or boom.

The situation becomes special when the budget starts borrowing from other economic operators instead of financial institutions. In this case, the aim is to repay the high-interest loans taken out from the central bank or from the banking system, but anti-inflationary money phase-out can also be the underlying reason. In such cases, the budget is without deficit, therefore its measure is anti-inflationary and aims to clean the debt portfolio. As a result, loans for easing corporate liquidity tensions become more expensive. At the same time, the yield of people's long-term savings, the aim of which is to achieve persistently high interest rates rather than using the capital, increases.

Prior to the detailed description of the content of the work subject to this study, it should be mentioned that the author undertook to present the historical devel-

opment of domestic public finances in an exceptionally detailed way, based on his research encompassing one and a half centuries. He continued and used the work of such historical predecessors as István Széchenyi, *Ignác Romsics*, *József Kelemen*, *Gyula Kautz*, *István Bibó*, *Dani Rodrik*, *John M. Keynes*, Adam Smith etc., adapting it to our current knowledge and practical experience. On the other hand, of course, he also relied on domestic publications of our age and from the past few decades.

Moving on to providing a review of the content of the work, due to the social consequences of the foundation of the state after the Hungarian conquest of the Carpathian Basin, relations with the neighbouring countries, the introduction of agriculture, the Tartar Invasion, the 150-year-long Turkish occupation and, later, the Habsburg Empire, the independent Hungarian financial system could evolve only temporarily, therefore in Hungary, feudalism lasted longer than in the western countries.

I agree with Lentner that, because of the almost continuous wars within the country and abroad, the real starting date of economic recovery called the “Reform Era” is 1820. In this period, the intellectual leaders of the nobility, under the leadership of Széchenyi, attempted to explore the real economic state of the country and find a “modern” solution with their proposals characteristic of the era. However, poverty, scarce capital supply, the serfs, the lack of equitable taxation and lending placed such a severe burden on the domestic economy that recovery from the situation would have required several decades. Based on the problems listed above, it was proven that feudalism, including the Law of Entailment as a major barrier to development, was not sustainable anymore. Széchenyi raised the following questions: Why is the capitalist poorer than he should be based on his money? Why the lord poorer than he should be based on his land? According to Széchenyi’s reply, because the capitalist cannot invest his capital as he wishes, while the landlord cannot sell his land freely. Consequently, their capital and lands could not cover credits or loans. Therefore, their only option was to accept illegal interest, however, they did not want to do so. In this way, they could not take advantage of the best economic opportunities, which significantly contributed to the underdevelopment of the industry and the agriculture.

As Kelemen states, “Széchenyi was neither liberal, nor conservative. His reform ideas made up the intellectual content of the 1830s, but (...) the rising liberal party was a great rival.” (Kelemen, 1938:2) From 1840, important laws were adopted, inter alia the Act on Bills of Exchange and Corporations, etc., but they did not bring about any perceptible change. Their effect on the economy was almost imperceptible.

Not only did Széchenyi prepare the war of independence, but he was also a public figure when he became the minister of traffic and public works. This was a source

of “inner conflict” for him, as he accepted a position that belonged to his intellectual opponents. Despite the fact that he was not a member of the liberal party, he agreed to become part of Count *Batthyány*’s government.

Széchenyi had to overcome himself when taking a decision on accepting the ministerial position offered by his intellectual opponents representing different principles. In the end, he thought that the position offered should have priority over his personal grievances, hoping to have a chance of realising his ideas in practice.

Lentner reveals that in spite of the fact that 36 relatively important financial institutions were opened in Budapest and in the countryside in the 1840s, they failed to bring about significant changes, as due to the crisis in Vienna, in 1841, the initial reform processes were interrupted. What is more, they contributed to strengthening the conservative trends. The new constitution, which was ratified by the king on 11 April 1848, was born more than half a decade later, abolishing feudalist obligations, i.e. entailment, the privileges of the nobility and customs barriers and replacing them by the freedom of pursuing agricultural, industrial and commercial activities.

However, due to the historical circumstances in which it was born, the new constitution could not disregard the events of the revolutions in Paris and Vienna. In particular, the declaration of equal burden sharing led to a very new financial situation and the opportunity to create a long-desired independent budget. As a minister of finance, *Kossuth* believed that the prerequisite for the desired national currency was not only the establishment of a national bank, but also that of an independent ministry of finance. However, the radicalising society strove for political instead of economic independence. Such efforts manifested themselves in armament, the increase of the military force, the independent issue of banknotes, as well as the development of the Hungarian budgetary and financial system.

Nevertheless, the war of independence failed owing to the well-known historical circumstances and the military superiority of the Monarchy and the Russian Empire. Subsequently, the Monarchy, overruling its own gradual stabilisation, introduced a stricter economic and tax system for offsetting public debt. The system was applied in new areas, while taxes were increased in a systematic and differentiated manner. As a result, the taxes levied in successor states were higher by 4-8% than average taxes in the empire. In addition, in order to reduce increased state debt, new and modern tax types were introduced. These taxes were also raised year by year, namely, consumption taxes more than income taxes. As Lentner neatly notes, the underlying intention of the empire was to make the nobility return to the sphere of interest of the Monarchy.

Although the dynamic development of financial institutions that started prior to the revolution and war of independence could not be stopped in the process of the

modernisation of economic administration, more serious changes took place only in the 1860s. The years between the two periods were dominated by high interest rates of 18-20%. "Hungary, without any chance of resistance, was exposed to developed Austrian commercial capitalism" (Kelemen, 1938:21).

Interestingly, the industry development policy of the Monarchy preferred the Czech and Moravian territories, as they were more "pliable" than the renitent Hungarians. The leaders of the Monarchy considered its western territories safer and revolution-free, not to mention the character of their economic relations. This attitude of the government of the Monarchy did not change even after the Austro-Hungarian Compromise of 1867. As regards the central bank, the situation was similar. The Austrian Nation Bank was still characterised by austere behaviour, limited lending policy and relatively adverse and prejudicially selective interest rate policy. As a result, the development of the less developed regions of our country was prevented by higher interest rates, as well.

Despite the "urgent action" required based on the international situation (regarding his imperial goals, *Bismarck* did not count on the Monarch), the Austro-Hungarian Compromise of 1867 was made in the spirit of equality but rather in the spirit of a hierarchical relationship "...the huge task of equitably determining the mutual rights and obligations of two allied states was far from being solved" (*Zergényi*, 1890:282).

Regular disagreements on determining the financing rate of the costs of joint public finances also reflected the previous statement. The Austrians intended to take objective decisions on long-term developments, while the Hungarians considered that the only acceptable way was to break down the development goals by object. Finally, as is known, the statutory contribution rate of 30-70% was valid for 10 years (by 31 December 1877). Subsequently, neither the rate, nor the time interval was compulsory. In the light of the above, an important event of the Austro-Hungarian Compromise, the establishment of a joint central bank, the Austro-Hungarian Bank, took place in 1878. The new central bank's two "Main Institutes" of equal rank started their operation in Vienna and Budapest, with the same rights and obligations (including the monopoly of issuing bank notes).⁷

Returning to the idea above, after the Austro-Hungarian Compromise of 1867, domestic developments - the building of the railway, the regulation of the Danube, the rebuilding of the capital and the construction of the Port of Fiume were a huge burden on the government budget, as these projects were mainly financed from loans. On the proposal of *Sándor Wekerle*, the government attempted to cover the

⁷ It should be mentioned that the Budapest Main Institute of the Austro-Hungarian Bank was entitled to issue only 20-crown banknotes.

budget deficit by raising different taxes and duties, changing the maturity dates of government bonds and decreasing their interest rates, etc. (*Sándor–Kolossa, 1950*). In the absence of the required budget revenues, the state had to limit expenditures permanently and increase revenues regularly to be able to fulfil its repayment obligations arising from increased borrowing. Failing this, the sources of taking out new loans would have dried up. In order to prevent this, the investments to be implemented and the amount of government loans from which they were to be financed were regulated by the law. The State Audit Office of Hungary established in 1870 was in charge of auditing the aforementioned figures merely in terms of accounting.

Similarly to the European trend, in the years after the Austro-Hungarian Compromise of 1867, a considerable amount of capital flowed into the country, on the one hand, as a result of an increase in the number of new financial institutions, on the other hand, due to the construction of railways and the financing of the above-mentioned projects. It was in line with demands according to which not only agriculture should be developed, but also the development of the industry and the infrastructure (industry, navigation, construction of sewage systems, etc.) was necessary, based on modern technology of the era. Moreover, they wanted to prioritise the establishment of factories which were to start manufacturing new products which had not been produced earlier here in our country. These factories were even granted tax allowances.⁸

Based on the above, in line with the spirit of the era, Hungary was continuously leaving behind feudal methods of production: “Over the past ten years, Hungary’s trade, agriculture and industry in general have been progressing and developing.” (*Baross, 1877:264*) As far as the industry was concerned, domestic companies were subsidised by making “public supply” compulsory. In spite of this fact, the Hungarian industry was lagging behind compared to other members states of the Monarchy. According to *Endre Nagy*, “industrial development was not equally intense during the whole existence of the Monarchy, but it was rather concentrated in the period between the late 1890s and the outbreak of the world war. (...) Incidentally, even industry itself adjusted to the dominant role of agriculture in the structure of the economy.” (*Nagy, 1977:86*) In this was, the interests of landowners dominated both the economy and public administration. After 1867, economic development in the modern sense could have started with the Austro-Hungarian Compromise, the establishment of a joint central bank and the introduction of the gold standard system.

8 The tax allowance applied to the home industry, craft, ship-building, the acquisition of parts by transport companies, etc.

According to Csaba Lentner, in the period of “quasi-statehood”, which was relatively short even in a historical sense, the desired change could not take place in finances. Moreover, the biggest loser of the First World War was Hungary. Although the “Double-Headed Eagle” fell, historic Hungary fell apart and the Károlyi government and the Council Republic committed a series of mistakes in the field of finances. The damages of the war affected 85-90 % of the national assets, budgetary deficit was extremely high, while inflation was a severe burden on the mutilated country.

Even after the declaration of independence, the Károlyi government received significant amounts from the Vienna branch of the Austro-Hungarian Bank. Moreover, even the reprint of certain banknotes (25- and 200-crown banknotes) in Budapest was allowed. However, only the face of the 200-crown bank notes included a design, the back was partly decorated with wavy lines, partly empty. The latter notes were called “white money”, while the rest of the notes were called “blue money”. People considered “blue money” to be more valuable, expecting that it would regain its purchasing power over time. Everyone wanted to sell for “blue money” and buy for “white money”. “White money” was considered to be the product of inflation. Consequently, the large volume of white money issued under the Károlyi government gave further boost to inflation. (Huszt, 1959).

In this situation, the financial government of the Council Republic committed another mistake: as opposed to other successor states, they did not overprint the banknotes issued by the Monarchy, therefore these banknotes flooded all the remaining parts of the country, resulting in hyperinflation of yet unknown scale in the world. Although there were several plans on setting up an independent central bank, none of them could be implemented owing to a lack of the required assets and in a period of only 133 days. Despite the shortness of available time, they started the nationalisation of banks and the creation of a new, independent currency with incredible determination. As the emission policy was dictated by Vienna, the Council Republic wanted to get rid of this dependence. The nationalisation of banks and the introduction of a kind of planned economy were regarded as urgent issues.

In spite of directing cash flow to state channels, the establishment of an independent central bank also became a necessity, as the main institute of the Austro-Hungarian Bank in Vienna cut all ties with the main institute in Budapest. Therefore, temporarily, the Finance Institute Centre was in charge with fulfilling the role of the “quasi central bank”, because its employees’ professional knowledge made it the most suitable organisation for this task. Later, then they decided on the issue of a new currency, the Postal Savings Bank took over this responsibility.

For lack of the competence and practice required for carrying out the activities of a central bank, they tried to solve only current difficulties. Inter alia, as the

shortage of change was considerable, first, they issued only small denomination banknotes of, later coins. Concurrently, they wanted to gradually withdraw 50-, 100-, 1000- and 10000-crown denominations, but they could not implement their plans due to historical events. Meanwhile, the Treaty of Trianon was concluding, ordering the liquidation of the Austro-Hungarian Bank, as well. The responsibilities of the central bank were taken over by the Royal Hungarian Note Issuing Institute in Hungary.

Due to severe post-war economic losses, the difficulties related to the establishment of an independent, stable monetary system, the lack of a Hungarian central bank and domestic capital accumulation, isolation in foreign policy, reparation obligation and for other reasons, the value (purchasing power) of the national currency (crown) could not be preserved again.⁹ The measures to protect the internal market, including import ban, a new customs policy, etc., were not effective enough. Therefore, the *Bethlen* government was forced to take drastic steps for consolidation. In the framework of this programme, they changed the customs policy, lifted the import ban, facilitated the import of missing raw materials, established an independent central bank and introduced a new currency, the pengó. At the same time, they could not change the conspicuous imbalances of the agricultural sector: 72.5% of people working in agriculture owned a land of 5 cadastral acres, while 0.66% of landowners had an estate of more than 100 acres. This fact alone refers to the underdevelopment of Hungary's economic structure. Under the Bethlen government, the government's attitude to agriculture did not change despite rising inflation. It was mainly attributable to the government's endeavours to prevent the spreading of land purchases by foreign citizens at any price, as there had been several examples for such purchases in history. However, agriculture had to face a lot of problems, which culminated during the economic crisis of 1929-33. The Bethlen government proved to be the less efficient exactly in this period. The 1929 crash of the New York Stock Exchange primarily hit agriculture, which had an especially detrimental effect on our country. Although the Bethlen government sought to support smallholders, it was not able to prevent them from becoming indebted. Nor were banks and industrial concerns able to avoid the ensuing financial and credit crisis that lasted by the end of 1933.

In connection with this period, it should be mentioned that in 1933, exchange control was introduced and the quasi convertibility of pengó was suspended. The historic significance of the move lies in the fact it was the first time that the convertibility of a currency was suspended in international finance. At the same time, it

9 "Between 1914 and 1924, prices became 8000 times higher, while wages became just 3500 times higher" (ROMSICS, 2017:87).

is worth mentioning that pengo was accepted in almost all of the neighbouring countries like a convertible currency.

The Royal Hungarian Note Issuing Institute established in 1921 could function as a central bank only to a limited extent. For the sake of economic consolidation, in 1924, the establishment of the National Bank of Hungary with contemporary functions was needed. The functions of the central bank included the protection of the stability of the crown, issuing cash, providing appropriate gold cover and exchanging banknotes for gold (upon request). The central bank started its operation as a company limited by shares. Exercising its functions, it protected the value of the national currency, influenced the cash and credit supply by monetary instruments, set the base rate and provided for the gold cover of the volume of cash issued (Botos, 1999).

As the exchange rate of the crown was tied to pound sterling, it was considered to be internationally stable, as well. All this supported the fairly weak banking sector in its customer relations. Such customer relations were further strengthened by the extension of the Finance Institute Centre regarding the activities of commercial banks related to deposits, pawnbrokerage, third-party guarantee, etc. The Finance Institute centre informed the National Bank of Hungary about its results on an annual basis.

The economic crisis of 1929–33 hit our country when agricultural production had already reached pre-war level, while industrial production even exceeded it by 12% (Romsics, 1996). The crisis necessitated additional financial constraints and the extension of the functions of the Finance Institute Centre. As a result, state intervention was strengthened. *Sándor Popovics*, the Governor of the National Bank of Hungary, agreed to this policy, because the dominance of the state was common in international practice, as well. The National Bank of Hungary bought up the Hungarian Banknote Printing Plc. in 1925. The series production of 5-, 10-, 20-, 50-, 100- and 1000-pengo banknotes already started in the Paper Factory of Diósgyőr in the same year. The banknotes were not only of excellent quality, but their artistic design was also exquisite by any international standards. Almost a year later, in 1926, the first metal 1-, 2-, 10-, 20- and 50-fillér coins, as well as the 1-pengo gold coin were produced.¹⁰ The new means of payment were put in circulation at the end of 1926 (officially on 1 January 1927). The withdrawal of crown banknotes started at the same time and finished by the middle of 1931.

¹⁰ The denomination composition did not change between 1931 and 1937. In terms of volume, the share of silver coins and change increased. As far as banknotes are concerned, the 1000-pengo denomination, which was issued in 1927, was withdrawn and the 10- and 50-pengo banknotes were replaced (BOTOS, 1999).

The monetary stock of the domestic economy was continuously filling up to the required level, however, the process was interrupted by the outbreak of the economic crisis in May 1929. The major, internationally dominant American banks suspended payments in gold. European central banks almost immediately followed suit. European central banks covertly devalued their currencies. The National Bank of Hungary had to take this measure, as well. The economic boom, which started so slowly earlier, came to an end. As a result, exchange control was reintroduced in the summer of 1931.

As Lentner describes, the less hectic short consolidation period of the second half of the *Horthy* Era was interrupted by the so-called “Győri Plan” launched in 1938, with the aim of supporting preparation and armament for the new world war. The one billion pengos appropriated for the five-year period was a huge amount, which not only generated inflation, but also meant an unbearable burden for the country. In spite of the fact that orders by the armaments industry increased employment, their deflationary effect severely distorted incomes. Of course, the amounts spent on armament and the related infrastructural investments were completely lost due to the damage caused by the war. Based on estimates by experts, war damage amounted to 40% of national assets. In addition, about 1 million people died, which resulted in obligations to pay compensation worth USD 300 million. Private households, manufacturing industry, agriculture and transportation suffered the most serious damage. Furthermore, the gold and foreign exchange stocks of the National Bank of Hungary were moved to the West.

4 THROUGH SOCIALIST PLANNED ECONOMY TO THE TRANSITION TO MARKET ECONOMY

The Provisional National Assembly set up at the end of December 1944 decided on the implementation of reconstruction, the land reform and nationalisations of smaller-scale, the reorganisation of economic life and public administration, as well as the soonest possible stoppage of inflation.

According to the author, the reorganisation of the economy and public administration started on the basis of the capitalist economy. Later, the victory of the left-wing parties led to the introduction of a Soviet-type production method based on collective, public ownership. The most important tasks included ordering and implementing land distribution. In the framework of this, 5.6 million cadastral acres were distributed. According to the author, 70% of this land was given to farms servants and agricultural labourers, who had neither farming experience, nor the necessary equipment and tools. Later, this fact also contributed to the relatively smooth process of collectivisation.

The provisional government was replaced by a coalition government, whose priority was to create a stable national currency. In order to achieve this goal, preparations started at the end of 1945. In the framework of these preparations, the stockpiling of industrial and agriculture products was started for the date of stabilisation, which was to be announced later.¹¹ The date of stabilisation depended primarily on the volume of consumer products and the return of the gold supply worth USD 32 million, which was taken to the West by the Arrow Cross government. The favourable performance of agriculture in 1946 also influenced funds for commodities.

During the preparation for stabilisation, several proposals were made regarding the name of the currency. Finally, forint was selected, as it had already proven to be successful under the rule of *Charles Robert, King Louis the Great, Rákóczi* or *Kossuth*. Representing continuity, the name of the change remained fillér.¹² The denomination composition of banknotes and coins was determined on the basis of the usual, traditional binary-decimal system. 2-, 10-, 20-fillér coins, 1-, 2-, 5-forint coins, as well as 10- and 100-forint banknotes were issued.¹³

Following stabilisation, the “socialist” economic system attempted to create opportunities for economic recovery after a successful historic step. Such attempts rather manifested themselves in “economic zigzags”. The global economic crises (over-production, oil price explosion, etc.) and the internal dissatisfaction (1956) added “fuel to the fire”. The stabilisation, which was regarded as successful, was followed by forced industrial development, with the aim of developing (reconstructing) the economy according to plans. In reality, the underlying cause of industrial development was preparation for the cold war. The total monopolisation of the financial sector, the establishment of a one-tier banking system, the collectivisation of agriculture and the total transition to planned economy, etc. brought about a financial explosion which forced the government to adjust prices and wages in December 1951. As a result, the average price level increased by 40%, while the average wage level grew only by 20%. The purchasing power of the forint fell by 60% from the stabilisation value. For the sake of the intensive and one-sided development of the socialist industry, the income due to the people was transferred to industry.

11 Already in March 1946, the National Bank of Hungary prepared an internal study on accession to the International Monetary Fund established in accordance with the Bretton-Woods Agreement and to the International Bank for Reconstruction and Development, the preparation of the membership application and the fulfilment of conditions (HUSZTI, 2016).

12 The monetary standard of forint equalled 0.0757 grams of fine gold, therefore the price of 1 kg was HUF 13,210. Based on gold parity, USD 1 was equivalent to HUF 11.74, while GBP 1 was worth HUF 29.35.

13 Because of the needs of cash flow, additional 20- and 50-forint banknotes were issued by 1951.

They endeavoured to ease the untenable economic and political situation by means of various “market-strengthening reforms”, however, they were not able to suppress the dissatisfaction that led to the outbreak of the revolution in 1956. Several new reform ideas were born in the aftermath of the revolution. They were realised slowly, but continuously: the role of central planning was decreased; corporate independence increased; the prices of more products were adjusted to the demand; central wage regulation was replaced by corporate wage regulation.¹⁴

The 1970s can be regarded as the “period of international crises”. Hungary failed to react appropriately to soaring global market prices of energy sources and raw materials in 1973 and 1979, which had serious consequences, as our country was an “inward-looking” country.¹⁵ “... solvent demand had to be restricted, a new exchange rate policy had to be developed, Hungary had to join international organisations and accept the real purchasing power of domestic currency. Unfortunately, they did not manage to develop functions which would have been sufficiently appropriate export incentives, would have limited import or would have protected the domestic price level...” (Huszt, 2016:447).

The unsustainability of the reigning regime became clear not only to experts, but also to politicians. Different proposals were made to solve the situation. However, only the endeavours aimed to ensure external balance, “modernise” the system of planned economy and establish a two-tier banking system brought about real changes. Such endeavours generated a debate about the one- or two-tier banking systems, changing incomes, future of the market economy and adaptation to international crises, etc.¹⁶

The strict system of planned economy collapsed, the domestic economy depending on external markets was hit by global economic crises. It was becoming increasingly obvious that the change of regime was inevitable. Of course, global economic processes, the weakening of the Soviet Union also contributed to these changes. “The Hungarian market economy was not established through the extension of internal resources increasing for decades, seeking to enterprise and looking for points to break out, but rather through the dynamic effects of western capital.”¹⁷

14 These ideas and processes already foreshadowed Hungary’s moving away from the traditional planning methods used by other socialist countries to some extent.

15 In international literature, the countries which failed to react to the signs of crisis were called “inward-looking”, while those which started adapting themselves to the changed international economic environment were called “outward-looking”.

16 The author follows and described the aforementioned processes in a very detailed manner.

17 A definition by Csaba Lentner.

According to the author, in the new system defined as “social market economy”, the “more prudent and sophisticated introduction of a new, (raw) market-based economy” would have been more reasonable than the maintenance of state interventions. The mechanisms which were effective in the western world did not work well in Hungary’s “social market economy” due to the long-lasting transition, capital deficit, constant budgetary problems, etc. Accession to the EU brought about change, as Hungary had to establish an EU-compatible system of institutions, which increased the country’s economic responsibility, provided budget support, helped the establishment of democratic institutions, supported the development of the infrastructure and the countryside. At the same time, it also required some sacrifices owing to the abolition of previous market protection measures. On the other hand, export trade with countries in the EU and outside the EU is still well-balanced and outstanding, even compared with other European countries.

The increase in the efficiency of the industrial sector was clearly due to privatisation and foreign direct investment, which ensured the consumption needs of the people, based on the western model and enabled the increase of employment. Not only did people expect more modern product supply, but they also expected a higher income level. According to experts, consumers, who were expressly impatient of their earlier helpless situation, were looking forward to have a higher standard of living and the opportunity to buy modern products. In order to realise their dream, they needed appropriate salaries, a modern supply and income that allowed them to purchase consumer durables, as well.

The author subtly alludes to a lesser-known consequence of privatisation: “A kind of helplessness might have been one of the reasons why reigning governments forewent state assets and organised their privatisations. The governments were unable to finance sectors with obsolete production structure from budgetary resources.”¹⁸ Due to the lack of interest (and resources), “spontaneous privatisation helped only those who were in the immediate vicinity of the assets to acquire assets effectively.”¹⁹ The government provided compensation notes for those who were entitled to receive compensation. However, owing to their old age and the value of the notes, most of these people used the compensation for non-business purposes and sold the notes. Consequently, nearly one-third of the entitled could

18 In my opinion, it was a deliberate decision. If I wanted to travel, I would not get in a completely broken-down car, either.

19 Spontaneous privatisation was based on the rediscovery of Act XXXVII of 1875 and Act V of 1930, see: SÁRKÖZY (1993:123).

exchange the notes for assets, arable land and tenement flats let by local governments.²⁰

In view of the above, taking into account the experience related to compensation notes, the author attributes the entitled nationals' failure to acquire ownership to the following: a low-level of entrepreneurship; the lack of domestic resources; the tax system; the difficulties of marketing the products; uncertain access to loans; inadequate ability to advocate interests; etc.

The ownership structure of the agricultural sector was a bit more complicated than that of the industry or trade. On the other hand, agricultural output was easier to follow. Although the income of state farms and agricultural cooperatives was appropriate, agricultural prices were lagging behind raw material and industrial prices affected by the oil crisis. The general cost increase and lower subsidies etc. led to unfavourable change in the price scissors of industrial and agricultural prices and decreased the agricultural sector's potential to generate income.

The author draws attention to a very important relationship: under political influence, almost 50% of the land acquired by means of compensation notes was divided into smallholdings of less than one hectare. Due to the lack of funding possibilities, they have not been cultivated properly, with modern technology over the past 50 years. The assets of cooperatives were distributed in an unprofessional way. The intentions of the members were ignored. Because of expected and real problems, the majority of the members of several cooperatives, mainly the elderly, would have wanted to maintain their security-providing membership in the cooperative. By contrast, as the author claims, relations in the sector had become chaotic, the assets of the cooperatives accumulated over decades have practically come to nothing. As a result of the regime change that took place in agriculture, the structure of agricultural holding, efficiency and profitability all changed unfavourably. Already at the time of the regime change, we had to take into account that our agricultural positions were unlikely to improve fast in the global market, therefore we had to prepare for the social consequences. Without considerable aids provided by the EU, the agricultural sector would not be able to operate, therefore, it is considered to be a "social sector". However, the decreasing role of agriculture in the national economy is not only typical of EU member states, but it is also a global phenomenon, raising a lot of employment and social issues (*Bod*, 2018).

20 According to the author: "A great disadvantage of privatisation was that compensation note holders did not acquire decisive ownership share in most of the medium-sized food-manufacturing plants in their vicinity, as governments had not established the comprehensive economic conditions of this step. Moreover, in the course of later operation, they did not provide overall support for the few plants where a domestic circle was able to acquire ownership share."

The author provides a detailed description of the situation of the banking system, in particular that of the central bank, in relation to the transition to market economy. Namely, the establishment of the two-tier banking system can be considered as a historic step regarding the domestic financial system as a whole. Beyond organisational changes, the importance of monetary regulation was appreciated, the hierarchy and the system of relationships between the central bank and its clients (commercial banks) changed. This also altered previous relations between the budget and the central bank, as the credit system was not able to take over the share of corporate money demand that had to be financed from budgetary sources any longer. Financing losses, which were arising from widening insolvency, from loans was equivalent to quasi budgetary subsidies. Principally, the sectors most affected by the crisis were supported, as the government wanted to avoid more severe social consequences.

As the view according to which the funding problems of the domestic banking system can be solved by foreign owners was “officially” gaining ground, the privatisation of banks occurred within a relatively short period of time. The main difficulty was (and, in general, is) that financial institutions in foreign ownership had to fulfil the profit expectations of their owners. At the same time, the Hungarian financial government wanted financial institutions to contribute to the financing of economic growth with their instruments and meet the requirements set by the domestic central bank in terms of the regulation of solvent demand.

Although Hungary was not an EU member state at the time, it adopted the EU’s directives on the central banks’ regulatory activity. Hungary did so in spite of the fact that the aforementioned directive still could not be harmonised with our national regulations and practice. Perhaps the most important rule forbade central banks to buy government securities upon issue so that they could “price” them based on primary demand. This was indicative of the state of the budget.

After the turn of the millennium, the Hungarian economy started growing, which could also be felt in the domestic banking sector. However, fiscal policy was still ailing, therefore real incomes grew more slowly than expected. As a result, the creditworthiness of people increased unrealistically but only latently. Nevertheless, it turned out only later, in connection with repayment obligations related to foreign currency lending. The situation was seemingly “beautiful and ideal”. At the same time, in reality, budgetary overspending and the indebtedness of several states lay in the background. Unexpectedly, but necessarily, global bank failures drew attention to the debt crisis. It was appropriate to ask the following questions: What did governments do to ensure budget balance? What did central banks do to grant the stability of currencies? Regarding Hungary, these questions were especially relevant, as, because of our high budget deficit, the EU launched an excessive deficit procedure against our country in 2004. However, the result of the

fiscal restriction could not be assessed due to the economic crisis of 2007-2008, which profoundly affected our domestic economy, as well. The very unfavourable change in foreign exchange rates and interest rates of foreign loans was due to the unprofessional domestic use of foreign loans, while budget cuts and the loss of confidence in the financial sector resulted in considerable divestment of foreign capital. The effects of the aforementioned changes were felt for several years. As the author writes, on the brink of state bankruptcy, income owners had to bear a substantial part of burdens, therefore, as a matter of course, production was decreased, foreign trade deficit increased, subsidies were reduced and the situation of domestic income owners became unfavourable.

5 ACTIVE STATE MODEL – MORE ACTIVE FISCAL POLICY

Irrespective of differences in political and ideological views, it became clear that serious economic problems had to be solved in the decade following the crisis and they had to be addressed primarily in terms of economic policy. The two-thirds victory in the elections enabled the drafting of the Fundamental Law. After the adoption of the Fundamental Law, the Stability Act and the Act on the State Audit Office were ratified, the management of national assets was rationalised. Such actions allowed more scope to appropriately complete budgetary and control tasks. As the following threats were imminent:

- 1) the collapse of the budget;
- 2) chronic deficit or perhaps collapse of the social security system, primarily that of the pension system;
- 3) bankruptcy of multiple companies, uncertain economic environment, reduced basic production functions;
- 4) bankruptcy of multiple local governments, social conflicts and public service dysfunctions;
- 5) the insolvency of families with foreign currency loans at a social level, the end of social stability and peace (*Bethlendi–Lentner, 2018*).

The author draws attention to those budgetary measures which facilitated the reasonable change of tax structure and owing to which taxes on capital decreased and taxes on consumption increased (Varga, 2017a). The latter measure was not necessarily successful, as consumer prices were increasing faster than expected, which required higher-than-expected wage increase. This caused a big problem

especially in those sectors which were suffering from considerable staff shortage. Moreover, the impact of inflation could not be ignored, either.²¹

Regarding external debt, the situation was a bit uncertain, as no visible change occurred in the relations. Moreover, any negative change in the attitude of foreign investors could have caused tremendous imbalances. By involving unorthodox elements in its toolkit, monetary policy helped to eliminate liquidity shortage. Zero or close-to-zero (but still positive) interest rates changed the relationship between clients and banks, as well as the usual relation between deposits and savings. The consequences of these phenomena are increasingly observable. The wrong decisions and attitude of financial institutions considerably decrease confidence in financial institutions, primarily among one of the most important group of money holders, the general public and small- and medium-sized enterprises. The consequences are unpredictable (Bod, 2019). As it is known, one example for these mismoves is the ordeal of Swiss-franc-denominated loans, another example is the threat posed by the huge volume of cash accumulated by the people. Both inspired a series of publications, however, no clear and effective solution has been found yet, regarding neither in lending, nor cash flow. The first topic causes difficulties for financial institutions using different registration methods, while the other generates lack of resources at financial institutions²², may upset retail demand and supply balance and may lead to inflation psychosis.²³

Several concerns may arise regarding the planned issue of government securities with a term of 4- or 5-year year maturity:

- only a small part of the population will probably choose this form of saving, as they will rather keep their saving at home owing to unfavourable yields and lack of confidence;
- if they do not trust in shorter-term government securities, why would they trust in government securities with half-decade-long maturity, considering that the yields are not too high after deducting the costs and taking into account cumulative price increase;²⁴
- considering the term, those who are good at finances prefer the stock market;

21 VARGA (2017a; 2018) provided a detailed summary of the effects of inflation.

22 There are regular disagreements between clients and financial institutions on the actual and registered repayment terms.

23 It is difficult even for the state to find the measures by which the situation could be solved. For details see: HUSZTI (2018:441–453).

24 The financial government estimates that the average annual inflation will be 3% in the future, which generates a real yield that hardly exceeds zero.

- selling the government securities prior to the maturity date (because of illness, death, etc.) results in loss.

As the domestic fiscal policy has supported growth instead of taking austerity measures, employment and the GDP have increased, external debt has decreased and the budgetary position of the country has improved. As a result, the government has been able to reduce public utility prices and increase family allowances, etc.

However, the improvement of the competitiveness of the economy requires the solution of further tasks, the most important of which are additional measures prioritising the continuous accumulation of savings and the increase of competitiveness. In this respect, the government has not succeeded in achieving satisfactory results yet. The institutional system supporting the achievement of the aforementioned goals has not been established yet. It will probably be set up in the 2020s.

This chapter provides abundant information on events after 2010 and is very useful for researchers dealing with the topic. The presentation of the huge amount of knowledge is based on significant research work, as a result of which readers are guided from the global economic and debt crisis, through budgetary measures and the turn in the monetary policy of the central bank, to successful crisis management. According to the author, “After 2010, in the philosophy of economics and in specific measures, the improvement of social positions in the classic sense, such as the improvement of the demographic situation, the quality of the education and healthcare systems, as well as the general improvement of the health and qualification of the labour force, appeared in - as it were - a direct way.”²⁵

It is particularly remarkable that the author aimed to present facts, allowing the reader to process and assess them. In one word, he did not force the reader to accept his opinion. This chapter provides the best opportunity to compare different views on fiscal and monetary policies and practice. The readers, who are supposed to be experts, as well, can decide whether they agree or disagree with the presented views. At the same time, it does not derogate the respectable endeavours of the author to provide extremely significant and comprehensive guidance for researchers studying the individual topics by describing the findings of his research.

The last chapter includes a theoretical and taxonomic summary by the Author and deals with the fiscal and monetary institutional system, practice and relationship of the periods subject to the study. Although the Author did not intend to set

25 LENTNER (2019a: the final section of Chapter 6).

up a hierarchy among the individual periods of economic history, his “favourite events” definitely took place during the dualism. This is probably linked to the fact that, in the views of some experts, Hungary became “quasi independent” in this period.

The author believes that the domestic financial system has three tiers:

- the historical traditions of economic administration, the development of which accelerated in the period of dualism;
- the fiscal and “unorthodox” practice of the central bank following the economic crisis of 2007–2008;
- and market regulation expected from the state (forcing profit markers to show self-restraint).

The author thinks that total state intervention in economic governance and excessive autonomy provided for economic operators are equally detrimental. The former completely separates private enterprises from the economic-technological base, while it has been proven that the latter leads to economic crisis. Of course, this does not rule out the market-leading role of state-owned companies in countries where they have traditionally been incorporated in the structure of the economy.²⁶

In my view, the key questions are: Where should the economy be heading and with what kind of social and economic instruments? To what extent can the set of instruments supporting the state’s economic development activity be considered “ethical”? Where is the role of the state necessary or perhaps essential? When does it become unreasonable and oppressive for the economy? Who should bear the costs? How far can governments go regarding the centralisation of power? Although the author is also right when raising the above-mentioned questions, no clear answers can be given to them based on the huge volume of literature reviewed and presented. Personally, I agree with the Author’s statement made in the first part of the work, according to which “centralisation is not a goal, but only an instrument in achieving consolidation.”

In view of the above, regarding the criteria of budgetary discipline, “a good tax system” and the central bank’s post-crisis policy, the author necessarily searches for an answer based on the experience collected in international literature and gained in the period of dualism.

In my opinion, knowledge related to the state and its economy strengthens the determining character, significance of fiscal policy and the continuous control of its implementation. This idea became important already after the Austro-Hungarian

²⁶ See: Austria, the Federal Republic of Germany, France, Italy, etc.

Compromise of 1867. As the structure of the industry was weak, the agricultural sector had to bear the burden of developing the economy. This obligation was only strengthened by the global economic crisis of 1929–33, which totally weakened the already fragile domestic industry, resulting in unprecedented unemployment. Unfortunately, later, history repeated itself: the failed socialist industrialisation, the compulsory establishment of cooperatives and then their unwanted dissolution caused a lot of difficulties. Consequently, the structure of Hungarian agriculture based on small, medium-sized and large estates still has not recovered to date due to uncertain ownership relations and a significant percentage of uncultivated lands, lagging a lot way behind its potential. Crises have always renewed financial culture. Historical experience gained from crises has had an important impact on Hungarian financial culture to date (*Kovács–Terták, 2019*).

Concerning “a good tax system or a good tax policy”, even contemporary authors raised the question: How far can taxation go, covering public expenses and without crippling taxpayers? (*Mariska, 1871*) Government behaviour contrary to the idea above has a negative impact on the activity providing the tax bases, leads to social tensions not only towards the government, but also among certain groups of taxpayers. In the light of these considerations, the Author clearly states the following: “tax has to be adjusted to realistic taxability, having regard to the avoidance of possible budgetary deficit.”

As *Tamás Bánfi* also puts it, the most important problems of modern economies include tax evasion, tax fraud, the success or failure of state regulation, the behaviour of taxpayers during and after the crisis, how optimal tax rates can be determined and how long fiscal pressure can be maintained, etc. (*Bánfi, 2015*). It is not only the author who searches for answers to these questions, but in the countries of the developed world, a lot of experts deal with researching the methods for whitening the economy. The underlying intention is that the successful whitening of the economy and increasing tax revenues enable the reduction of tax burdens. Otherwise, the consequences of the irritating black economy gain ground. Based on the above, the following statement by the Author can be accepted: “a good tax system exists only as a theoretical category.” In addition, under the influence of social changes, the tax system always has to face new challenges, reacting to which it is continuously changing (*Varga–Cseh, 2019*).

Subchapters 7.1 and *7.2* of the final chapter (*Chapter 7*) may mainly evoke the interest of experts of the “history” of budget and they also contribute to deeper understanding of the previous chapters. The Author seems to have put a lot of energy into processing the relevant literature. Due to his efforts, I also had the opportunity to become familiar with some new sources.

After the inevitable establishment of the two-tier banking system, it became clear soon that the functions of the central bank had to be changed, adjusting them to

the wider range of activities carried out by commercial banks, and in terms of the central bank's relations to public finances, as well. Both fields required a more powerful central bank in supporting processes promoting macrostability and controlling redistribution.²⁷ Nevertheless, this can only be ensured if monetary and fiscal policies cooperate more closely. The central bank is responsible not only for setting "one-dimensional goals adjusted to inflation" prior to the crisis, but also for general macroeconomic and social stability.²⁸ According to the author: "The redistributive effects of monetary policy have come to the foreground. The modelling and transparency of the central bank's decisions require the establishment of a framework that enables the interpretation and implementation of monetary policy decisions in a complex macroeconomic dimension and social context."²⁹ In the light of the above, the Author agrees with those theoretical statements according to which monetary policy can influence economic processes only in the short run. Only comprehensive countercyclical economic policy is suitable for this. This effect called "hysteresis phenomenon" "extraordinarily increases the value of countercyclical economic policy, as (...) it may only have a significant impact on the level of the GDP in the long run."³⁰ Economies kept under high demand pressure cannot grow unless they have free machinery and manpower available for expanding the supply. Otherwise, demand surplus will be "absorbed" by inflationary price increase. We can agree with the author regarding that the aforementioned factors have to determine the future of fiscal and monetary policies. (Bánfi 2019) The two large subsystems of financial policy, fiscal and monetary policies, have to operate in symbiosis for the sake of the competitiveness of the national economy, financial equilibrium and the success of possible crisis management, as well. Central bank mechanisms play an increasingly important role in it.

27 KOVÁCS (2019:15) writes about the establishment of the two-tier banking system, the subsequent decades and the development of supervisory activity in detail. Monographs on the topic: KOVÁCS–MÁRSI (eds.) (2018:379).

28 About changes in banking policy after the crisis of 2007–2008, and the adaptation of the changes by Hungary, see: KOVÁCS (2017:13).

29 7.3.2 *About the revival of institutional thinking and the appreciation of the role of the central bank.* See the detailed description of new policies applied by central banks: VONNÁK (ed.) (2017:496).

30 See: The Growth Report published by the National Bank of Hungary in December 2016.

Ernő Huszti 90

The discursive essay is an expressive summary of the scientific life-work of Ernő Huszti, who is about to celebrate his 90th birthday in 2020, as well as that of the latest book by Csaba Lentner, his student. Ernő Huszti was the head of the Payment Department at the National Bank of Hungary. Later, he became one of the theoretical masterminds of the establishment of the two-tier banking system. In the early 1990s, he worked as the managing director of Magyar Hitelbank (Hungarian Credit Bank), and then he became the Deputy CEO of Országos Kereskedelmi és Hitelbank (National Commercial and Credit Bank). He has been awarded the Silver Cross of Merit of the Hungarian Republic. His field of research: bank regulation, measurement of money demand and money supply, governance of monetary policy. He is an honorary university professor of Corvinus University of Budapest and the Budapest Business School. Until the mid-2000s, he taught at the University of Veszprém, the University of Sopron, Milton Friedman University. He has been an active member of the Public Finances Research Group at the National University of Public Service for nearly ten years. He has been the author of a number of monographs, essays and other publications.

REFERENCES

- BÁROSS, GÁBOR (1877): Az 1875. évi augusztus 28-ra hirdetett országgyűlés képviselőházának naplója [Diary of the House of Representatives of the Parliament Convened on 28 August 1875]. XIV. Budapest, 264.
- BÁNFI, TAMÁS (2015): A fair tax (system) or an ethical taxpayer? *Society And Economy*, 37: Suppl., 116.
- BÁNFI, TAMÁS (2019): *Apokalipszis? avagy ismét a Paradicsomban?* [Apocalypse? or back to Paradise?]. Budapest: Cenzus Bt. (2019), 315 p.
- BOD, PÉTER ÁKOS (2019): Hungarian Economic Policy between 1989 and 2019. *Economy and Finance*, 6(1), 17–42.
- BOD, PÉTER ÁKOS (2018): Európai növekedési modell(ek), szuverenitás és pénzfolyamatok [European Growth Model(s), Sovereignty and Monetary Processes]. In HALM, TAMÁS – HURTA, HILDA – KOLLER, BOGLÁRKA (eds.): *Gazdasági, politikai és társadalmi kihívások a 21. században. Ünnepi kötet a 65 éves Halmi Péter tiszteletére* [Economic, Political and Social Challenges in the 21st Century: Anniversary edition in honour of the 65-year-old Péter Halmi]. Budapest: Dialóg Campus Kiadó, 287–296.

- BETHLENDI, ANDRÁS – LENTNER, CSABA (2018): Subnational Fiscal Consolidation: The Hungarian Path from Crisis to Fiscal Sustainability in Light of International Experiences. *Sustainability*, 10(9), DOI: 10.3390/su10092978.
- BOTOS, JÁNOS (1999): *A Magyar Nemzeti Bank története II.: Az önálló jegybank 1924–1948* [The History of the National Bank Of Hungary II: The Independent Central Bank 1924–1948]. Budapest: PressCon Kiadó.
- HETÉNYI, ISTVÁN (1999): *Adópolitikai ismeretek* [Tax Policy Studies]. Budapest: BKE.
- HUSZTI, ERNŐ (1959): A Magyar Tanácsköztársaság pénzügyi rendszere [Banking system and Cash Flow in the Hungarian Republic of Councils. The Financial System of the Hungarian Republic of Councils]. In NAGY, TIBOR, – HUSZTI, ERNŐ – KATONA, ÉVA – KUPA, MIHÁLY (1959): *Bankrendszer és pénzforgalom a Magyar Tanácsköztársaságban* [The Financial System of the Hungarian Republic of Councils]. Budapest: Közgazdasági és Jogi Könyvkiadó, 169–257.
- HUSZTI, ERNŐ (1998): A makropénzügytan alapjai [The Basics of Macro-finance]. Veszprémi Egyetemi Kiadó, Veszprém.
- HUSZTI, ERNŐ (2001–2002): *Banktan* [Banking. Second, revised and extended edition]. Budapest: TAS-11 Kft., 55.
- HUSZTI, ERNŐ (2016): Hetven éves a magyar forint [70 Years of the Hungarian Forint]. *Pénzügyi Szemle*, 2016/4, 447–455.
- HUSZTI, ERNŐ (2018): „Tetraéder-hatás”. A jegybanki alapkamat, a készpénzállomány, a lakossági betétek, a hitelkihelyezés és a seigniorage közötti összefüggések Magyarországon [“The Tetrahedron Effect”. Links Between the Central Bank’s Current Prime Rate, Cash, Retail Deposits, Lending and Seigniorage in Hungary]. *Pénzügyi Szemle*, 2018/4, 441–453.
- KELEMEN, JÓZSEF (1938): *A magyar hitelügy története* [The History of Hungarian Lending]. Budapest: Sárkány Nyomda, 2., 21.
- KOVÁCS, LEVENTE (2017): A bankvezetési kultúra változása a gazdasági válság hatására [Changes in Bank Management Culture Under the Influence of the Crisis]. *Műszaki és Menedzsment Tudományi Közlemények*, 2(4), 261–273.
- KOVÁCS, LEVENTE (2018): A gazdasági válságok szerepe a pénzügyi kultúra fejlődésében [The Role of Economic Crises in the Development of Financial Literacy]. In: PÁL, ZSOLT (ed.) (2018): *Pénzügyi kultúra* [Financial literacy]. Miskolc: Miskolci Egyetemi Kiadó, 278 p. ISBN: 9789633581520, 16–31.
- KOVÁCS, LEVENTE (2019): The First Three Decades of the Hungarian Banking Association. *Economy and Finance*, 6(1), 2–16.
- KOVÁCS, LEVENTE – MARSJI ERIKA (eds.) (2018): *Bankmenedzsment – Banküzemtan* [Bank Management – Banking]. Budapest: Magyar Bankszövetség, 379 p.
- LENTNER, CSABA (2005): *Rendszerváltás és pénzügypolitika* [Regime Change and Fiscal Policy]. Budapest: Akadémiai Kiadó, 308 p.
- LENTNER, CSABA (2014): *Közpénzügyek és államháztartástan* [Public Finances– Government Budget]. Budapest: Nemzeti Közszoigalati Tankönyvkiadó, 341 p.
- LENTNER, CSABA (2016): *Rendszerváltás és pénzügypolitika: Tények és tévhitek a neoliberais piacgazdasági átmenetről és a 2010 óta alkalmazott nem konvencionális eszközökről* [Regime Change and Fiscal Policy: Facts and Misconceptions on the Neoliberal Transition to Market Economy and the Unorthodox Instruments Applied since 2010].
- LENTNER, CSABA (2017): *Közpénzügyi menedzsment* [Public Finance Management]. Budapest: Dialóg Campus Kiadó, 262 p.
- LENTNER, CSABA (2019a): *A magyar állampénzügyek fejlődéstörténete a dualizmus korától napjainkig – Kelettől Nyugatra, Nyugattól Keletre* [East of Europe, West of Asia – Evolution of Public

- Finances in Hungary, from the Age of Dualism to the Present Day]. Budapest: L'Harmattan Kiadó, 280 p. ISBN 978 963 4145 400.
- LENTNER, CSABA (2019b): *Önkormányzati pénz- és vagyongazdálkodás* [Financial and Asset Management of Local Governments]. Budapest: Dialóg Campus Kiadó, 167 p.
- MARISKA, VILMOS (1871): Pénzügytan, különös tekintettel a nevezetesebb államok háztartására [Finance in Particular with Regard to the Government Budget of Major States]. (n. 8r. XII and p. 500), Pest: Petrik G. (Ráth M.), 16. o.
- NAGY, ENDRE (1977): Állami beavatkozás a monarchiabeli Magyarországon [State Intervention in Hungary During the Monarchy]. *Gazdaság és Jogtudomány*, MTA IX. Osztályának Közleményei 11(1–2), 85–114.
- ROMSICS, IGNÁC (1996): Az államháztartás szanalása és a pénzügyi stabilizáció Magyarországon az 1920-as években [Resolution of the Government Budget and Financial Stabilisation in Hungary in the 1920s]. In *Monetarizmus: múlt és jelen (Deviancia vagy normalitás)* [Monetarism: Part and Present (Deviance or Normality)]. Debrecen: MTA Debreceni Akadémiai Bizottsága – Friedrich Ebert Alapítvány, 99 p. 75–80.
- ROMSICS, IGNÁC (2017): *A Horthy-korszak* [The Horthy Era. Selected Studies]. Budapest: Helikon, 414 p.
- SÁNDOR, VILMOS – KOLOSSA TIBOR (1950): Magyarország államkölcöneinek történetéből I. [From the History of Hungary's Government Loans I.]. *Századok*, 1–4, 353–378.
- SÁRKÓZY, TAMÁS (1993): *A privatizáció joga Magyarországon (1989–1993)* [The Law of Privatisation in Hungary]. Budapest: Akadémiai Kiadó, 197 p.
- VARGA, JÓZSEF (2017a): Az adóteher-csökkentés és a gazdaság kifehéritésének pályája Magyarországon 2010 után [Reducing the Tax Burden and Whitenening the Economy in Hungary after 2010]. *Pénzügyi Szemle*, 62(1), 7–20.
- VARGA, JÓZSEF (2017b): Az infláció definíciójáról és közvetlen újraelosztási hatásairól [On the Definition of Inflation and the Effects of Its Direct Redistribution]. *Köz-gazdaság* 12 (2), 235–243.
- VARGA, JÓZSEF – SIPICZKI, ZOLTÁN (2018): Az infláció gazdasági egyensúly torzító hatásai [On the Distorting Effects of Inflation on Equilibrium]. In CSEH, BALÁZS – PARÁDI-DOLGOS, ANETT – VARGA, JÓZSEF (eds.) (2018): *Ünnepi tanulmányok Oroszi Sándor 70. születésnapja tiszteletére* [Anniversary Studies in the Honour of Sándor Oroszi's 70th Birthday]. Kaposvár: Kaposvári Egyetem Gazdaságtudományi Kar, 213–225.
- VARGA, JÓZSEF – CSEH, BALÁZS (2019): A negyedik ipari forradalom egyes adózási és munkaerőpiaci hatásai [Certain Effects of the 4th Industrial Revolution on Taxation and the Labour Market]. *Controller Info* 7(1), 11–14.
- VONNÁK, BALÁZS (ed.) (2017): *Modern jegybanki gyakorlat*. Budapest: Magyar Nemzeti Bank, 496 p.
- ZERGÉNYI, ERNŐ (1890): A quote kérdéséhez közjogi szempontból [About Quote in Terms of Public Law]. *Jogtudományi Közöny*, XXV, 281.